

'06

# State of Utah

Comprehensive Annual Financial Report



For the Fiscal Year Ended **June 30, 2006**



**State Of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
For The Fiscal Year Ended June 30, 2006

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Gary R. Herbert ..... Lt. Governor  
Auston G. Johnson, CPA ..... State Auditor  
Edward T. Alter, CPA ..... State Treasurer  
Mark L. Shurtleff ..... Attorney General  
John L. Valentine ..... President of the Senate  
Greg J. Curtis ..... Speaker of the House  
Christine M. Durham ..... Chief Justice, Supreme Court

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Richard K. Ellis ..... Executive Director, Dept. of Administrative Services  
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**ACKNOWLEDGMENTS**

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Special appreciation is given to all of the budget and accounting officers throughout the State whose extra time and effort made this report possible.



**State of Utah**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2006

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**A. Reporting Entity**

For financial reporting purposes, the State of Utah reporting entity includes the “primary government” and its “component units.” The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State’s activities. The State’s component units are legally separate organizations for which the State’s elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization’s governing body and either: (1) the ability of the State to impose its will on that organization or; (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization’s governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State’s component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor’s Office, PO Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State’s support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

**Blended Component Units**

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government’s debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

**Discrete Component Units**

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State’s component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program, Comprehensive Health Insurance Pool and the Schools for the Deaf and Blind are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State’s major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for local governments and other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State’s nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Utah Schools for the Deaf and the Blind — These Schools provide practical education to individuals with hearing and/or vision impairments. Although not required, these Schools issue separate but unaudited financial statements.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audited financial statements.

### Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

### Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This Fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

## B. Government-wide and Fund Financial Statements

### Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program

revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

### Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

## C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

### Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

### Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

**Major Governmental Funds** — The State reports the following major governmental funds:

- **General Fund.** This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Uniform School Fund.** This special revenue fund accounts primarily for revenues and expenditures that support public elementary and secondary schools in the State.
- **Transportation Fund.** This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.
- **Transportation Investment Fund.** This special revenue fund accounts for revenue and expenditures associated with Centennial Highway projects and other specific highway projects.
- **Trust Lands Fund.** This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

**Nonmajor Governmental Funds** — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

### Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described previously. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

Reporting for business-type activities and enterprise funds follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

**Major Enterprise Funds** — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs.** These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.
- **Unemployment Compensation Fund.** This fund pays claims for unemployment to eligible recipients.
- **Water Loan Programs.** This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

**Nonmajor Enterprise Funds** — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

**Internal Service Funds** — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include technology services, fleet operations, risk management, copy and mail services, debt collection, property management, and transportation infrastructure. In the government-wide financial statements, internal service funds are included with governmental activities.

### Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

**Pension Trust Funds** — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

**Investment Trust Fund** — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

**Private Purpose Trust Funds** — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Educational Savings Plan Trust.

**Agency Funds** — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.



## Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

### D. Fiscal Yearends

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (nonmajor enterprise fund), which have fiscal years ending December 31.

### E. Assets, Liabilities, and Net Assets/Fund Balances

#### Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems' (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the

U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (pension trust funds) held four types of derivative financial instruments at yearend: futures, currency forwards, options, and swaps. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

### Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

### Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Prepaid items for the Student Assistance Programs (enterprise fund) are primarily guarantor insurance premiums charged at the time loan proceeds are disbursed and are amortized over the estimated lives of

the loans using a method which approximates the interest method of amortization.

### Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets, with the exception of infrastructure, are defined by the State as assets, which cost \$5 thousand or more when acquired and have an estimated useful life greater than one year. Infrastructure assets are capitalized if the cost is over \$1 million. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the “modified approach” to account for infrastructure assets (roads and bridges) maintained by the State’s Department of Transportation. This includes infrastructure acquired prior to fiscal year 1981. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: (1) maintain an inventory of the assets and perform periodic condition assessments; (2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and (3) document that the assets are being preserved approximately at or above the condition level set by the State. Other infrastructure, which is primarily maintained by the Department of Natural Resources, is capitalized and depreciated.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State’s assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

### Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

### Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

### Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

### Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, deferred amount on refunding, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred amount on refunding. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs (enterprise fund) to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of

Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2006, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was \$67.845 million, of which \$66.881 million represents yield reduction payments and \$965 thousand represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

#### Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination. Employees who have a sick leave balance in excess of 144 hours at the beginning of a calendar year are eligible to "convert" up to 40 hours of sick leave if less than that amount is used during the year. Employees may use converted sick leave in place of annual leave. Any balance in converted sick is paid to employees upon termination. This converted sick leave program ends on January 1, 2014. The total liability of the governmental activities for compensated absences is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Note 10 for additional information about the liability.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination unless employees are eligible for retirement or the sick leave is "converted". Sick leave is expended when used.

At retirement, for participating agencies, an employee receives 25 percent of the value of unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. Each day of remaining sick leave is *either* used to purchase one month of health and life insurance coverage or Medicare supplement (if earned prior to January 1, 2006), *or* converted to a value and placed in a health reimbursement account (if earned on or after January 1, 2006). Regardless of the unused sick leave balance, the State will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee reaches age 65, whichever comes first. However, as of January 1, 2006, this part of the program will be phased out over the next five years. See Note 17 for additional information about postemployment benefits.

The State maintains compensated absences pools and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds, Utah Schools for the Deaf and the Blind, and private purpose trust

funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expended when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

#### Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

#### F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

#### Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2006, the State reported revenue and expenditures of \$16.956 million for commodities in the General Fund, and \$10.005 million for commodities in the Uniform School Fund (special revenue fund).

#### Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment

income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

### Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

### G. Interfund Transactions

#### Government-wide Financial Statements

**Interfund Activity** — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

**Interfund Balances** — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

#### Governmental Fund Financial Statements

**Interfund Activity** — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

### NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Effective July 1, 2005, the Legislature created the Transportation Investment Fund of 2005 (major governmental fund) and designated

that projects, previously reported as part of the Centennial Highway Fund (major governmental fund), be reported within this new fund. This change had no impact on governmental activities reported in the current year or previous years.

### NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investments for the primary government and its discrete component units are governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Trust Lands (permanent fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). Exempt from the Act in the primary government is the Utah Retirement Systems (pension trust funds). The discrete component units exempt from the Act are Utah Housing Corporation, Public Employees Health Program, and the college and universities' endowment funds.

#### A. PRIMARY GOVERNMENT

##### Custodial Credit Risk — Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the primary government at June 30, 2006, were \$337.575 million. Of these, \$334.138 million were exposed to custodial credit risk as uninsured and uncollateralized.

##### Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing

Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The Act permits investing according to the rules of the Money Management Council for certain funds with a long-term perspective and funds acquired by gift, private grant, and the corpus of funds functioning as endowments. The Council's Rule 2 allows the State to invest these funds in any of the above investments or in any of the

following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

The primary government's investments at June 30, 2006, are presented below. All investments, except those of the Utah Retirement Systems (pension trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

**Primary Government Investments**  
(except Pension Trust Funds)  
(Expressed in Thousands)

Investment Type	Fair Value	Investment Maturities (in years)			
		Less Than 1	1–5	6–10	More Than 10
<u>Debt Securities</u>					
U.S. Treasuries.....	\$ 4,756	\$ 1,556	\$ 3,200	\$ —	\$ —
U.S. Agencies.....	2,423,866	2,253,112	168,077	—	2,677
Corporate Debt.....	5,137,275	5,137,275	—	—	—
Negotiable Certificates of Deposit.....	272,809	272,809	—	—	—
Money Market Mutual Fund.....	40,000	40,000	—	—	—
Commercial Paper.....	207,122	207,122	—	—	—
Bond Mutual Fund *.....	507,580	—	—	507,580	—
Repurchase Agreements.....	15,544	15,544	—	—	—
	8,608,952	\$ 7,927,418	\$ 171,277	\$ 507,580	\$ 2,677
<u>Other Investments</u>					
Equity Securities.....	25,000				
Equity Mutual Funds Securities:					
Domestic.....	1,468,068				
International.....	227,047				
U.S. Unemployment Trust Pool.....	608,871				
Real Estate Held for Investment Purposes..	957				
Real Estate Joint Ventures.....	568				
Component Units Investment in Primary					
Government’s Investment Pool.....	(717,442)				
Total.....	\$10,222,021				

\* At June 30, 2006, the bond mutual fund had an average effective maturity of 7.2 years.

The majority of the primary government's corporate debt securities are variable-rate securities, which adjust periodically to the prevailing market interest rates. Because these securities frequently reprice, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of \$1.6 billion owned by the primary government reset periodically and have a maximum maturity out to three years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and on a quarterly basis may be called or stepped up; if held to maturity they will mature at par. In the current rising interest rate environment, some of these adjustable rate securities have not kept pace with the increase in rates as reflected in their fair market

values. In the table above, U.S. agency securities are presented according to the length of time until the next reset date rather than the stated maturity.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Utah Educational Savings Plan Trust (private purpose trust) – \$1.119 billion, 77.3 percent, in domestic equity mutual fund securities; \$227.566 million, 15.7 percent, in bond mutual fund; \$101.849 million, 7.0 percent, in international equity mutual fund securities. Trust Lands (permanent fund) – \$318.751 million, 44.3 percent, in domestic equity mutual fund securities; \$275.867 million, 38.3 percent, in bond mutual fund; and \$125.198 million, 17.4 percent, in international equity mutual fund securities.

**Pension Trust Funds Investments**  
**At December 31, 2005**  
*(Expressed in Thousands)*

<b>Investment Type</b>	<b>Fair Value</b>
Debt Securities – Domestic .....	\$ 3,471,621
Debt Securities – International .....	400,941
Equity Securities – Domestic .....	5,794,377
Equity Securities – International .....	3,672,021
Short-term Securities Pools .....	1,323,887
Mortgage Loans:	
Collateralized Loans .....	19
Real Estate Notes .....	6,846
Real Estate .....	2,353,273
Alternative Investments (Venture Capital) .....	611,590
Guaranteed Investment Contracts .....	47,219
Equity Securities – Domestic (Pooled) .....	343,136
Mutual Fund – International .....	246,364
Mutual Fund – Balanced .....	299,263
Investments Held by Broker-dealers	
Under Securities Lending Program:	
U.S. Government and Agency Securities .....	628,764
Corporate Debt Securities – Domestic .....	104,586
Debt Securities – International .....	464,353
Equity Securities – Domestic .....	1,177,330
Equity Securities – International .....	4,169
Total Investments .....	20,949,759
Securities Lending Collateral Pool .....	2,455,131
Total Pension Trust Funds .....	<u>\$ 23,404,890</u>

### Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy:

- For domestic debt securities managers, an individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.
- The international debt securities investment managers shall maintain an effective duration of their portfolio between 50 and 150 percent of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2005, was 3.43–5.71 for domestic debt securities and 2.64–7.93 for international debt securities. At December 31, 2005, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2005, the following tables show the investments by investment type, amount and the effective weighted duration rate.

**Pension Trust Funds**  
**Debt Securities Investments, Domestic**  
*(Expressed in Thousands)*

<b>Investment</b>	<b>Fair Value</b>	<b>Effective Weighted Duration</b>
Asset backed securities	\$ 164,829	0.98
Commercial mortgage backed securities	127,799	4.04
Convertible equity	2,217	NA
Corporate bonds	542,962	4.78
Corporate convertible bonds	171	NA
Fixed income derivatives-futures	161,874	(0.29)
Fixed income derivatives-options	674	189.70
Fixed income futures	(161,874)	NA
Government agencies	81,920	4.05
Government bonds	493,588	7.13
Government mortgage backed securities	1,505,962	3.84
Index linked government bonds	118,136	2.97
Municipal/provincial bonds	2,201	8.55
Non-government backed C.M.O.'s	387,476	2.12
Other fixed income	7,598	NA
Pooled debt securities	769,440	NA
<b>Total debt securities investments, domestic</b>	<b>\$ 4,204,973</b>	<b>4.14</b>

**Pension Trust Funds**  
**Debt Securities Investments, International**  
*(Expressed in Thousands)*

<b>Investment</b>	<b>Fair Value</b>	<b>Effective Weighted Duration</b>
Asset backed securities	\$ 15,915	2.28
Commercial mortgage backed securities	12,446	3.11
Corporate bonds	349,346	5.06
Fixed income derivatives-options	(30)	141.91
Government agencies	10,225	2.92
Government bonds	404,290	6.69
Government mortgage backed securities	45,422	3.41
Index linked government bonds	1,937	8.45
Municipal/provincial bonds	14,475	7.01
Non-government backed C.M.O.'s	11,269	3.21
<b>Total debt securities investments, international</b>	<b>\$ 865,295</b>	<b>5.83</b>

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2006, with the exception of URS, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

**Primary Government Rated Debt Investments**  
**(except Pension Trust Funds)**  
*(Expressed in Thousands)*

<b>Debt Investments</b>	<b>Fair Value</b>	<b>Quality Ratings</b>			
		<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>
U.S. Agencies.....	\$ 2,423,866	\$ 2,232,002	\$ —	\$ 191,035	\$ —
Corporate Debt.....	\$ 5,137,275	\$ 565,748	\$ 835,288	\$ 3,357,712	\$ 378,527
Negotiable Certificates of Deposit.....	\$ 272,809	\$ —	\$ 30,046	\$ 242,763	\$ —
Money Market Mutual Fund.....	\$ 40,000	\$ —	\$ —	\$ —	\$ —
Commercial Paper.....	\$ 207,122	\$ —	\$ —	\$ —	\$ —
Bond Mutual Fund.....	\$ 507,580	\$ —	\$ —	\$ —	\$ —
Repurchase Agreements – Underlying:					
U.S. Treasuries.....	\$ 7,608	\$ —	\$ —	\$ —	\$ —
U.S. Agencies.....	\$ 7,936	\$ 7,936	\$ —	\$ —	\$ —

Continues Below

<b>Debt Investments</b>	<b>Quality Ratings</b>	
	<b>A1 *</b>	<b>Unrated</b>
U.S. Agencies.....	\$ —	\$ 829
Corporate Debt.....	\$ —	\$ —
Negotiable Certificates of Deposit.....	\$ —	\$ —
Money Market Mutual Fund.....	\$ —	\$ 40,000
Commercial Paper.....	\$ 207,122	\$ —
Bond Mutual Fund.....	\$ —	\$ 507,580
Repurchase Agreements – Underlying:		
U.S. Treasuries.....	\$ —	\$ 7,608
U.S. Agencies.....	\$ —	\$ —

\* A1 is Commercial Paper rating

The Utah Retirement Systems (URS) expects its domestic debt securities investment managers to maintain diversified portfolios by sector using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of “A” (S&P) or equivalent rating.
- Securities with a quality rating of BBB– and below are considered below investment grade. No more than 5 percent of an investment manager’s assets at market with a single issuer of 1 percent of the total portfolio can be below investment grade.
- Upon approval, a domestic debt securities investment manager may invest up to 10 percent of the portfolio in non-U.S. dollar denominated bonds.

Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB– or Moody’s index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2005, was AA+ and the fair value of below grade investments was \$51.912 million or 1.25 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2005, was AA– and the fair value of below grade investments was \$6.675 million or 0.77 percent of the international portfolio.

The following table presents the URS ratings as of December 31, 2005:

**Pension Trust Funds**  
**Debt Securities Investments at Fair Value**  
(Expressed in Thousands)

Quality Rating	Domestic	International	Total
AAA	\$ 1,302,330	\$ 405,237	\$ 1,707,567
AA+	71,805	—	71,805
AA	19,227	19,839	39,066
AA–	50,986	50,635	101,621
A+	68,219	5,413	73,632
A	58,119	55,026	113,145
A–	49,260	49,200	98,460
BBB+	53,742	24,575	78,317
BBB	83,375	41,827	125,202
BBB–	38,447	18,989	57,436
BB+	14,936	591	15,527
BB	7,403	644	8,047
BB–	22,170	1,876	24,046
B	11,034	—	11,034
B–	—	381	381
NR	11,305	3,184	14,489
Total credit risk debt securities	1,862,358	677,417	2,539,775
U.S. Government and Agencies**	1,518,828	49,029	1,567,857
Pooled investments*	823,787	138,849	962,636
Total debt securities investments	\$ 4,204,973	\$ 865,295	\$ 5,070,268

\* Ratings of pooled investments were unavailable from the custodian.

\*\* Ratings for the U.S. Government and Agencies category were unavailable from the custodian; however, securities issued by the U.S. government and its agencies are generally considered rated AAA or equivalent.

### Custodial Credit Risk — Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government’s investments at June 30, 2006, except those of the Utah Retirement Systems, were held by the State or in the State’s name by the State’s custodial banks; except \$15.544 million of repurchase agreements where the underlying securities were uninsured and held by the investment’s counterparty, not in the name of the State.

At December 31, 2005, the Utah Retirement Systems (URS) investments were registered in the name of URS and held by their custodians except for \$20.868 million of investments that were held by the custodians not in the name of URS and \$(45.554) million of investments for which exposure to custodial credit risk could not be determined.

### Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

Except for the Utah Retirement Systems (pension trust funds), the primary government’s policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had debt securities investments at June 30, 2006, with more than 5 percent of the total investments in securities of the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments represented 13.3 percent and 6.5 percent, respectively, of investments subject to concentration of credit risk.

The Utah Retirement Systems debt securities investments had no single issuer investments that exceed their portfolio investment guidelines by sector and by issuer as follows:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager’s assets at market with a single issuer.
- AA–/Aa3 Debt Securities — no more than 4 percent of an investment manager’s assets at market with a single issuer.



- A-/A3 Debt Securities — no more than 3 percent of an investment manager's assets at market with a single issuer.
- BBB-/Baa3 Debt Securities — no more than 2 percent of an investment manager's assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.
- For Domestic Equity Securities — no more than 4 percent of an investment manager's assets at market with a single issuer. Also, no more than 8 percent of an investment manager's assets shall be invested in the equity or REIT securities of any single issuer at market.
- For International Equity Securities — no more than 8 percent of an investment manager's assets at market with a single issuer.

The primary government, except the Utah Retirement Systems (pension trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has \$101.849 million and the Trust Lands (permanent fund) has \$125.198 million invested in international equity funds. As such, no currency denomination is presented.

The Utah Retirement Systems (URS) manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. The URS exposure to foreign currency risk is presented on the following table.

### Foreign Currency Risk — Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

**Pension Trust Funds**  
**Foreign Currency Risk**  
**International Investment Securities at Fair Value**  
**At December 31, 2005**  
*(Expressed in Thousands)*

Currency	Short Term	Debt	Equity	Total
Argentine peso .....	\$ —	\$ 381	\$ —	\$ 381
Australian dollar .....	(1,179)	11,267	60,098	70,186
Brazilian real .....	—	—	6,785	6,785
Canadian dollar .....	50	4,305	31,461	35,816
Danish krone .....	3	2,706	14,778	17,487
Euro .....	37,276	265,709	807,334	1,110,319
Hong Kong dollar .....	131	—	58,932	59,063
Japanese yen .....	11,636	51,976	609,831	673,443
Mexican peso .....	340	4,342	1,311	5,993
New Israeli shekel .....	—	2,619	—	2,619
New Taiwan dollar .....	—	—	2,263	2,263
New Zealand dollar .....	18	2,271	7,122	9,411
Norwegian krone .....	1	—	15,851	15,852
Poland zloty .....	—	3,564	—	3,564
Pound sterling .....	(1,226)	64,153	527,088	590,015
Republic of Korea won .....	—	9,102	29,635	38,737
Singapore dollar .....	36	—	20,376	20,412
Swedish krona .....	452	21,253	36,165	57,870
Swiss franc .....	495	—	226,968	227,463
Thailand baht .....	—	2,251	—	2,251
International equity mutual fund (various currencies) .....	—	—	246,364	246,364
Total Securities subject to foreign currency risk .....	48,033	445,899	2,702,362	3,196,294
United States dollars (securities held by international investment managers) .....	103,241	419,396	1,220,192	1,742,829
Total international investment securities .....	<u>\$ 151,274</u>	<u>\$ 865,295</u>	<u>\$ 3,922,554</u>	<u>\$ 4,939,123</u>

**B. COMPONENT UNITS****Custodial Credit Risk — Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2006, were \$155.570 million. Of these, \$147.578 million were exposed to custodial credit risk as uninsured and uncollateralized.

**Investments**

The component units follow the applicable investing criteria described above for the primary government, with the exception of Utah Housing Corporation and Public Employees Health Program which are exempt from the Money Management Act.

College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to the requirements of the Uniform Management of Institutional

Funds Act (UMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents. The UMIFA and Rule 541 allow the Entity to invest endowment funds (including gifts, devises, or bequests of property of any kind from any source) in any of the above investments or any of the following subject to satisfying certain criteria: professionally managed pooled or commingled investment funds registered with the Securities and Exchange Commission or the Comptroller of the Currency (e.g., mutual funds); professionally managed pooled or commingled investment funds created under 501(f) of the Internal Revenue Code which satisfy the conditions for exemption from registration under Section 3(c) of the Investment Company Act of 1940; any investment made in accordance with the donor's directions in a written instrument; and any alternative investment funds that derive returns primarily from high yield and distressed debt (hedged or non-hedged), private capital (including venture capital, private equity, both domestic and international), natural resources, and private real estate assets or absolute return and long/short hedge funds.

The component units' investments at June 30, 2006, are presented below.

**Component Units Investments**  
(Expressed in Thousands)

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-20</u>	<u>More Than 20</u>
<u>Debt Securities</u>						
U.S. Treasuries .....	\$ 296,229	\$ 220,948	\$ 73,989	\$ 701	\$ 591	\$ —
Government National Mortgage Association .....	18	—	—	—	18	—
U.S. Agencies .....	569,202	220,804	130,167	27,488	163,482	27,261
Corporate Debt .....	47,233	10,532	15,986	16,224	4,491	—
Money Market Mutual Funds .....	185,271	184,117	1,154	—	—	—
Negotiable Certificates of Deposit .....	1,500	897	603	—	—	—
Municipal/Public Bonds .....	4,230	75	1,505	2,083	567	—
Repurchase Agreements .....	25,403	25,403	—	—	—	—
Guaranteed Investment Contracts .....	293,658	215,172	5,542	35,016	37,928	—
Bond Mutual Funds .....	120,774	—	18,945	101,829	—	—
Securities Lending Cash Collateral Pool .....	24,063	24,063	—	—	—	—
Utah Public Treasurer's Investment Fund .....	717,442	717,442	—	—	—	—
	<u>2,285,023</u>	<u>\$ 1,619,453</u>	<u>\$ 247,891</u>	<u>\$ 183,341</u>	<u>\$ 207,077</u>	<u>\$ 27,261</u>
<u>Other Investments</u>						
Equity Securities:						
Domestic .....	52,933					
International .....	699					
Equity Mutual Funds Securities:						
Domestic .....	323,015					
Mutual Fund – Real Estate .....	1,699					
Hedge Funds .....	46,403					
Venture Capital Funds .....	7,797					
Total .....	<u>\$ 2,717,569</u>					

**Interest Rate Risk — Investments**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

**Credit Risk of Debt Securities**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2006, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

**Component Units Rated Debt Investments**

(Expressed in Thousands)

<u>Debt Investments</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>
U.S. Agencies.....	\$ 569,202	\$ 568,783	\$ 55	\$ —	\$ —
Corporate Debt.....	\$ 47,233	\$ 2,074	\$ 2,002	\$ 22,488	\$ 15,824
Money Market Mutual Funds .....	\$ 185,271	\$ 375	\$ —	\$ —	\$ —
Negotiable Certificates of Deposit.....	\$ 1,500	\$ —	\$ —	\$ —	\$ —
Municipal/Public Bonds.....	\$ 4,230	\$ 4,230	\$ —	\$ —	\$ —
Guaranteed Investment Contracts .....	\$ 293,658	\$ —	\$ —	\$ —	\$ —
Bond Mutual Funds .....	\$ 120,774	\$ —	\$ —	\$ —	\$ —
Securities Lending Cash Collateral Pool.....	\$ 24,063	\$ —	\$ —	\$ —	\$ —
Utah Public Treasurer's Investment Fund .....	\$ 717,442	\$ —	\$ —	\$ —	\$ —
Repurchase Agreements – Underlying:					
U.S. Agencies.....	\$ 4,572	\$ 4,572	\$ —	\$ —	\$ —
Money Market Mutual Funds .....	\$ 20,831	\$ —	\$ —	\$ —	\$ —

Continues Below

<u>Debt Investments</u>	<u>Quality Ratings</u>		
	<u>BB</u>	<u>B</u>	<u>Unrated</u>
U.S. Agencies.....	\$ —	\$ —	\$ 364
Corporate Debt.....	\$ 1,625	\$ 1,043	\$ 2,177
Money Market Mutual Funds .....	\$ —	\$ —	\$ 184,896
Negotiable Certificates of Deposit.....	\$ —	\$ —	\$ 1,500
Municipal/Public Bonds.....	\$ —	\$ —	\$ —
Guaranteed Investment Contracts .....	\$ —	\$ —	\$ 293,658
Bond Mutual Funds .....	\$ —	\$ —	\$ 120,774
Securities Lending Cash Collateral Pool.....	\$ —	\$ —	\$ 24,063
Utah Public Treasurer's Investment Fund .....	\$ —	\$ —	\$ 717,442
Repurchase Agreements – Underlying:			
U.S. Agencies.....	\$ —	\$ —	\$ —
Money Market Mutual Funds .....	\$ —	\$ —	\$ 20,831

**Custodial Credit Risk — Investments**

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component units' investments at June 30, 2006, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which were uninsured, were not registered in the name of the component unit, and were held by (expressed in thousands):

Counterparty

U.S. Treasuries ..... \$ 259,695

Government National

Mortgage Association ..... \$ 18  
U.S. Agencies ..... \$ 243,923  
Repurchase Agreements ..... \$ 12,136

Counterparty's Trust Department or Agent

U.S. Treasuries ..... \$ 5,854  
U.S. Agencies ..... \$ 1,994  
Corporate Debt ..... \$ 9,587  
Municipal/Public Bonds ..... \$ 534  
Repurchase Agreements ..... \$ 12,130

**Concentration of Credit Risk — Investments**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for Utah Housing Corporation and Public Employees Health Program, the component units' policy for reducing this risk of loss is the same as described above for the primary government for non-endowment funds. For college and university endowments funds, their policy for reducing this risk of loss is to follow the Uniform Management of Institutional Funds Act (UMIFA) and State Board of Regents Rule 541, Management and Reporting of Institutional Investments (Rule 541) or separate endowment investment policies which have been approved by their Board of Trustees and by the Board of Regents.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in Trinity Guaranteed Investment Contracts, the Federal National Mortgage Association, CDC Guaranteed Investment Contracts, AIG Guaranteed Investment Contracts, and Royal Bank of Canada Guaranteed Investment Contracts. These investments are 12.97 percent, 9.78 percent, 8.52 percent, 6.77 percent, and 6.35 percent, respectively, of the Corporation's total investments.

Southern Utah University had \$5.209 million, 17.7 percent, of its investments in Federal Home Loan Notes.

### C. Securities Lending

The Utah Retirement Systems (pension trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were \$2.379 billion and \$23.688 million, respectively, and the collateral received for those securities on loan was \$2.455 billion and \$24.190 million (includes \$127 thousand of non-cash collaterals), respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the

short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

### D. Derivative Financial Instruments

#### Utah Retirement Systems

The Utah Retirement Systems (URS) (pension trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives are reported at their fair values on the statement of net assets. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from the performance of some agreed upon benchmark. At December 31, 2005, URS had four types of derivative financial investments: futures, currency forwards, options, and swaps.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing URS's credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At December 31, 2005, URS investments had the following futures balances (expressed in millions):

	Value Covered By Contract
Long-cash and cash equivalent futures .....	\$ 104,485
Long-equity futures .....	\$ 736,324
Short-equity futures .....	\$ (413,397)
Long-debt securities futures.....	\$ 767,163
Short-debt securities futures .....	\$ (135,174)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At December 31, 2005, URS investments included the following currency forwards balances (expressed in billions):

Currency forwards ( <i>pending foreign exchange purchases</i> ) .....	\$ 1,482
Currency forwards ( <i>pending foreign exchange sales</i> ).....	\$ (1,478)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument

underlying the option. At December 31, 2005, URS investments had the following options balances (expressed in thousands):

	<b>Value Covered By Contract</b>
Cash and cash equivalent purchased call options.....	\$ 2,869
Cash and cash equivalent purchased put options .....	\$ (13)
Fixed income written put options .....	\$ (110)
Fixed income written call options.....	\$ 753

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At the

end of the year, URS had two different types of swap arrangements: interest rate swaps and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counter party who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed URS to convert their long term variable interest rate credit facility loans into fixed interest rate loans. The credit default swaps protects the rental cash flows on one of URS real estate investments in case the major tenant defaults on its lease contract. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Net Assets. At December 31, 2005, URS investments had the following swap market value balances:

**Utah Retirement Systems  
Interest Rate Swaps  
December 31, 2005  
(Expressed in Thousands)**

	<b>Outstanding Notational Amount*</b>	<b>Interest Rate**</b>	<b>Maturity Date</b>	<b>Fair Value</b>
<u>Interest Rate Swaps</u>				
Interest Rate Swaps	\$ 660,369	3.4675–5.046%–LIBOR	2007–2020	\$ 9,573
Total	<u>\$ 660,369</u>			<u>\$ 9,573</u>
<u>Credit Facility Swaps</u>				
Morgan Stanley Credit Default Swaps	<u>\$ 111,000</u>		9/29/2008	<u>\$ (727)</u>

\* Base used to calculate interest

\*\* London Interbank Offered Rate

### Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

**Objective** — In order to protect against the potential of rising interest rates, the Corporation has entered into 60 separate pay-fixed, receive-variable interest rate swaps and one Interest Rate Cap Agreement as of June 30, 2006. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information

about each swap is included in the Corporation's separately issued financial statements.

**Terms, Fair Values, and Credit Risk** — The terms, including the fair values of the outstanding swaps as of June 30, 2006, are summarized below. The notional amounts of the swaps matched the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

**Utah Housing Corporation**  
**Interest Rate Swap and Cap Agreements**  
**June 30, 2006**  
*(Expressed in Thousands)*

<u>Outstanding Notational Amount</u>	<u>Issue Dates</u>	<u>Fixed Rate Paid by the Corporation</u>	<u>Variable Rate Received from Counterparty</u>	<u>Fair Values</u>	<u>Termination Dates</u>
<u>Interest Rate Swap Agreements</u>					
\$ 80,020	2000–2006	4.640% to 7.760%	LIBOR* plus .15%	\$ (2,752)	2008–2029
542,275	2000–2006	3.939% to 5.610%	BMA** plus .27%	(16,934)	2012–2028
<u>\$ 622,295</u>				<u>\$ (19,686)</u>	
<u>Interest Rate Cap Agreements</u>					
\$ 1,875	2005	1.02%	Excess of BMA ** over 5.73%	\$ (203)	2027

\* London Interbank Offered Rate

\*\* The Bond Market Association Municipal Swap Index

**Fair Values** — The fair values of swaps are a function of market interest rates and the remaining term on the swap contracts. The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

**Credit Risk** — The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa, which mitigates any credit risk associated with the derivatives' fair value.

**Basis Risk** — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under Tax Risk/Cross-over.

**Tax Risk / Cross-over** — Nineteen of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If both of these events occur the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. In addition, various of the Corporation's BMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater and in some cases 4 percent or greater. When the LIBOR rate is greater than 3.5 or 4 percent, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2006, no "Tax Event" or "Cross-over Event" has occurred.

**Termination Risk** — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

**Rollover Risk** — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2006, the Corporation's swap termination dates ranged from 7 to 26 years prior to the maturity dates of the associated debt.

#### NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal

year ended June 30, 2006, are as follows:

**Public Treasurer's Investment Fund**  
**Statement of Net Assets**  
**June 30, 2006**  
*(Expressed in Thousands)*

<b>Assets</b>	
Cash and Cash Equivalents .....	\$ 237,646
Investments.....	7,858,259
Interest Receivable .....	50,145
Total Assets.....	<u>\$ 8,146,050</u>
<b>Net Assets Consist of:</b>	
External Participant Account Balances.....	\$ 4,301,311
Internal Participant Account Balances:	
Primary Government .....	3,116,821
Component Units.....	717,817
Undistributed Reserves and Unrealized Gains/Losses.....	10,101
Net Assets .....	<u>\$ 8,146,050</u>
Participant Account Balance Net Asset Valuation Factor .....	<u>.99968</u>

**Public Treasurer's Investment Fund**  
**Statement of Changes in Net Assets**  
**For the Fiscal Year Ended June 30, 2006**  
*(Expressed in Thousands)*

<b>Additions</b>	
Pool Participant Deposits .....	<u>\$ 10,974,231</u>
Investment Income:	
Investment Earnings .....	317,613
Fair Value Increases (Decreases) .....	(3,667)
Total Investment Income .....	313,946
Less Administrative Expenses .....	(197)
Net Investment Income.....	313,749
Total Additions .....	<u>11,287,980</u>
<b>Deductions</b>	
Pool Participant Withdrawals .....	9,744,453
Earnings Distributions .....	323,982
Total Deductions.....	<u>10,068,435</u>
Net Increase From Operations .....	<u>1,219,545</u>
<b>Net Assets</b>	
Beginning of Year.....	6,926,505
Net Assets – End of Year .....	<u>\$ 8,146,050</u>

**Public Treasurer's Investment Fund  
Portfolio Statistics**

<b>June 30, 2006</b>		
	<b>Range of Yields</b>	<b>Weighted Average Maturity</b>
Money Market Mutual Fund.....	4.92%	52 days
Certificates of Deposit.....	5.00% – 6.25%	40.72 days
U.S. Agencies .....	3.56% – 5.63%	107.46 days
Corporate Bonds and Notes .....	3.81% – 6.24%	52.82 days
Commercial Paper .....	5.30% – 5.35%	3 days
 <b>June 30, 2006</b>		
	<b>Weighted Average Yield</b>	<b>Average Adjusted Maturity</b>
Total Investment Fund .....	5.00%	66.77 days

**Deposits and Investments**

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this note.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2006, were \$79.044 million. Of those, \$78.344 million were exposed to custodial credit risk as uninsured and uncollateralized.

**Custodial Credit Risk — Deposits**

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

**Investments**

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2006, are presented below.

**Public Treasurer's Investment Fund Investments**  
(Expressed in Thousands)

<b>Investment Type</b>	<b>Fair Value</b>	<b>Investment Maturities (in years)</b>	
		<b>Less Than 1</b>	<b>1–5</b>
<u>Debt Securities</u>			
U.S. Agencies .....	\$ 2,411,782	\$ 2,246,683	\$ 165,099
Corporate Bonds and Notes .....	5,134,008	5,134,008	—
Negotiable Certificates of Deposit...	272,809	272,809	—
Money Market Mutual Fund.....	40,000	40,000	—
Commercial Paper .....	195,745	195,745	—
	<u>\$ 8,054,344</u>	<u>\$ 7,889,245</u>	<u>\$ 165,099</u>



The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of \$1.597 billion of the PTIF reset periodically and have a maximum maturity out to three years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and may be called on a quarterly basis, or will mature at par if held to maturity. In the event that current market interest rates were to exceed the predetermined rates, the fair value of the securities would be impacted.

### Interest Rate Risk — Investments

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

### Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2006, were rated by Standard and Poor's and/or an equivalent nationally recognized statistical rating organization and the ratings are presented below using the Standard and Poor's rating scale.

### Public Treasurer's Investment Fund Rated Debt Investments

(Expressed in Thousands)

Rated Debt Investments	Fair	Quality Ratings			
	Value	AAA	AA	A	BBB
U.S. Agencies.....	\$ 2,411,782	\$ 2,220,747	\$ —	\$ 191,035	\$ —
Corporate Bonds and Notes .....	\$ 5,134,008	\$ 563,948	\$ 835,289	\$ 3,356,244	\$ 378,527
Negotiable Certificates of Deposit	\$ 272,809	\$ —	\$ 30,046	\$ 242,763	\$ —
Money Market Mutual Fund.....	\$ 40,000	\$ —	\$ —	\$ —	\$ —
Commercial Paper.....	\$ 195,745	\$ —	\$ —	\$ —	\$ —

Continues Below

Rated Debt Investments	Quality Ratings	
	A1 *	Not Rated
U.S. Agencies.....	\$ —	\$ —
Corporate Bonds and Notes .....	\$ —	\$ —
Negotiable Certificates of Deposit	\$ —	\$ —
Money Market Mutual Fund.....	\$ —	\$ 40,000
Commercial Paper.....	\$ 195,745	\$ —

\* A1 is Commercial Paper rating

### Concentration of Credit Risk — Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total

dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had debt securities investments at June 30, 2006, with more than 5 percent of the total investments in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments represented 17.8 percent and 8.8 percent, respectively, of total investments.

**NOTE 5. RECEIVABLES**

Receivables as of June 30, 2006, consisted of the following (in thousands):

	Accounts Receivable					Notes/ Mortgages
	Federal	Customer	Other	Interest	Taxes	
<b>Governmental Activities:</b>						
General Fund.....	\$ 216,794	\$ 215,272	\$ 2,221	\$ 30	\$ 277,646	\$ 22,282
Uniform School Fund.....	30,913	1,089	95	—	680,459	8,879
Transportation Fund.....	49,513	—	6,889	—	66,972	365
Transportation Investment Fund.....	3,476	—	—	—	808	—
Trust Lands .....	—	—	9,865	1,586	—	2,400
Nonmajor Funds.....	153	4,057	—	105	—	155
Internal Service Funds.....	—	6,027	—	—	—	—
Adjustments:						
Fiduciary Funds.....	—	—	694	—	—	—
Total Receivables .....	<u>300,849</u>	<u>226,445</u>	<u>19,764</u>	<u>1,721</u>	<u>1,025,885</u>	<u>34,081</u>
Less Allowance for Uncollectibles:						
General Fund.....	—	(56,311)	—	—	(15,553)	(1,210)
Uniform School Fund.....	—	—	—	—	(78,173)	—
Transportation Fund.....	—	—	(200)	—	(2,687)	—
Transportation Investment Fund.....	—	—	—	—	(51)	—
Internal Service Funds.....	—	—	—	—	—	—
Receivables, net .....	<u>\$ 300,849</u>	<u>\$ 170,134</u>	<u>\$ 19,564</u>	<u>\$ 1,721</u>	<u>\$ 929,421</u>	<u>\$ 32,871</u>
Current Receivables .....	\$ 300,849	\$ 147,783	\$ 10,067	\$ 1,721	\$ 887,214	\$ 19,956
Noncurrent Receivables .....	—	22,351	9,497	—	42,207	12,915
Total Receivables, net .....	<u>\$ 300,849</u>	<u>\$ 170,134</u>	<u>\$ 19,564</u>	<u>\$ 1,721</u>	<u>\$ 929,421</u>	<u>\$ 32,871</u>
<b>Business-type Activities:</b>						
Student Assistance Programs .....	\$ 27,927	\$ 738	\$ —	\$ 19,028	\$ —	\$ 1,755,885
Unemployment Compensation.....	216	96,531	—	—	—	—
Water Loan Programs.....	—	2,526	—	8,606	—	499,466
Nonmajor Funds.....	39	13,345	—	3,760	—	292,348
Total Receivables .....	<u>28,182</u>	<u>113,140</u>	<u>—</u>	<u>31,394</u>	<u>—</u>	<u>2,547,699</u>
Less Allowance for Uncollectibles:						
Student Assistance Programs.....	—	—	—	—	—	(3,009)
Unemployment Compensation.....	—	(8,118)	—	—	—	—
Water Loan Programs.....	—	—	—	—	—	—
Receivables, net .....	<u>\$ 28,182</u>	<u>\$ 105,022</u>	<u>\$ 0</u>	<u>\$ 31,394</u>	<u>\$ 0</u>	<u>\$ 2,544,690</u>

Accounts receivable balances are an aggregation of amounts due from the federal government, customers, and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2006, were \$1.395 billion for major component units and \$76.772 million for nonmajor component units, net of an allowance for doubtful accounts of \$48.928 million and \$4.844 million, respectively.

**NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities as of June 30, 2006, consisted of the following (in thousands):

	<b>Salaries/ Benefits</b>	<b>Service Providers</b>	<b>Vendors/ Other</b>	<b>Government</b>	<b>Tax Refunds</b>	<b>Interest</b>	<b>Total</b>
<b>Governmental Activities:</b>							
General Fund .....	\$ 45,465	\$ 190,631	\$ 53,786	\$ 70,325	\$ 3,964	\$ —	\$ 364,171
Uniform School Fund .....	1,923	1,549	6,372	29,090	16,143	—	55,077
Transportation Fund.....	5,837	—	72,385	28,107	3,492	—	109,821
Transportation Investment Fund .....	—	—	2	—	—	—	2
Nonmajor Funds .....	32	4	35,140	13	—	34,122	69,311
Internal Service Funds .....	1,343	9	9,014	224	—	5	10,595
Adjustments:							
Fiduciary Funds .....	—	—	—	2,826	—	—	2,826
Other.....	—	—	—	—	—	1,556	1,556
Total Governmental Activities .....	<u>\$ 54,600</u>	<u>\$ 192,193</u>	<u>\$ 176,699</u>	<u>\$ 130,585</u>	<u>\$ 23,599</u>	<u>\$ 35,683</u>	<u>\$ 613,359</u>
<b>Business-type Activities:</b>							
Student Assistance Programs .....	\$ 1,425	\$ —	\$ 10,953	\$ 1,569	\$ —	\$ 8,321	\$ 22,268
Unemployment Compensation .....	—	2,008	—	4	—	—	2,012
Water Loan Programs .....	—	—	692	—	—	—	692
Nonmajor Funds .....	708	—	10,091	—	—	221	11,020
Adjustments:							
Fiduciary Funds .....	—	—	—	51	—	—	51
Total Business-type Activities.....	<u>\$ 2,133</u>	<u>\$ 2,008</u>	<u>\$ 21,736</u>	<u>\$ 1,624</u>	<u>\$ 0</u>	<u>\$ 8,542</u>	<u>\$ 36,043</u>

Accounts payable and accrued liability balances are an aggregation of amounts due to: **(1)** state employees for salaries/benefits; **(2)** service providers for childcare, job services and health services; **(3)** vendors and miscellaneous suppliers; **(4)** local and federal governments for services; **(5)** individuals and others as a result of tax overpayments; and **(6)** interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

**NOTE 7. INTERFUND BALANCES AND LOANS****Interfund Balances**

Interfund balances at June 30, 2006, consisted of the following (in thousands):

## Due to General Fund from:

Uniform School Fund.....	\$ 121
Transportation Fund.....	843
Trust Lands Fund.....	27
Nonmajor Governmental Funds.....	2,288
Unemployment Compensation Fund.....	8,139
Nonmajor Enterprise Funds.....	11,158
Internal Service Funds.....	1,261
Fiduciary Funds.....	284

Total due to General Fund from other funds ..... \$ 24,121

## Due to Uniform School Fund from:

General Fund.....	420
Trust Lands Fund.....	25
Unemployment Compensation Fund.....	169
Nonmajor Enterprise Funds.....	3,371
Internal Service Funds.....	37

Total due to Uniform School Fund from other funds ..... \$ 4,022

## Due to Transportation Fund from:

General Fund.....	199
Nonmajor Governmental Funds.....	1
Nonmajor Enterprise Funds.....	4
Internal Service Funds.....	34

Total due to Transportation Fund from other funds ..... \$ 238

## Due to Trust Lands Fund from

Nonmajor Enterprise Funds.....	\$ 6,392
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## Due to Nonmajor Governmental Funds from:

General Fund.....	1,637
Nonmajor Governmental Funds.....	24
Nonmajor Enterprise Funds.....	9
Internal Service Funds.....	139
Fiduciary Funds.....	24

Total due to Nonmajor Governmental Funds from other funds ..... \$ 1,833

## Due to Water Loan Programs from:

General Fund.....	117
Trust Lands Fund.....	43
Nonmajor Enterprise Funds.....	18

Total due to Water Loan Programs from other funds ..... \$ 178

## Due to Nonmajor Enterprise Funds from:

General Fund.....	\$ 502
Transportation Fund.....	92
Nonmajor Governmental Funds.....	14,885
Internal Service Funds.....	5

Total due to Nonmajor Enterprise Funds from other funds ..... \$ 15,484

## Due to Internal Service Funds from:

General Fund.....	7,988
Uniform School Fund.....	249
Transportation Fund.....	3,003
Nonmajor Governmental Funds.....	591
Nonmajor Enterprise Funds.....	130
Internal Service Funds.....	127
Fiduciary Funds.....	386

Total due to Internal Service Funds from other funds ..... \$ 12,474

## Due to Fiduciary Funds from:

General Fund.....	2,731
Uniform School Fund.....	1
Transportation Fund.....	12
Nonmajor Enterprise Funds.....	51
Internal Service Funds.....	82

Total due to Fiduciary Funds from other funds ..... \$ 2,877

Total Due to/Due froms ..... \$ 67,619

These balances resulted from the time lags between the dates that: (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made.

**Interfund Loans**

Interfund loans at June 30, 2006, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds ..... \$ 27,507

Payable to General Fund from Nonmajor Enterprise Funds ..... 604

Payable to Nonmajor Enterprise Funds from Internal Service Funds ..... 20

Total Interfund Loans Receivable/Payable ..... \$ 28,131

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of \$27.507 million includes \$10.74 million that is not expected to be repaid within one year.

**NOTE 8. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows (in thousands):

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated:				
Land and Related Assets .....	\$ 743,977	\$ 52,314	\$ (299)	\$ 795,992
Infrastructure .....	7,545,349	184,356	(27,109)	7,702,596
Construction-In-Progress .....	594,099	481,895	(272,087)	803,907
Total Capital Assets not being Depreciated .....	<u>8,883,425</u>	<u>718,565</u>	<u>(299,495)</u>	<u>9,302,495</u>
Capital Assets being Depreciated:				
Buildings and Improvements .....	1,177,992	5,730	(2,959)	1,180,763
Infrastructure .....	33,211	275	(188)	33,298
Machinery and Equipment .....	446,975	36,513	(19,229)	464,259
Total Capital Assets being Depreciated .....	<u>1,658,178</u>	<u>42,518</u>	<u>(22,376)</u>	<u>1,678,320</u>
Less Accumulated Depreciation for:				
Buildings and Improvements .....	(368,002)	(32,656)	1,348	(399,310)
Infrastructure .....	(6,006)	(1,402)	6	(7,402)
Machinery and Equipment .....	(306,954)	(34,688)	14,806	(326,836)
Total Accumulated Depreciation .....	<u>(680,962)</u>	<u>(68,746)</u>	<u>16,160</u>	<u>(733,548)</u>
Total Capital Assets being Depreciated, Net .....	<u>977,216</u>	<u>(26,228)</u>	<u>(6,216)</u>	<u>944,772</u>
Capital Assets, Net .....	<u>\$ 9,860,641</u>	<u>\$ 692,337</u>	<u>\$ (305,711)</u>	<u>\$10,247,267</u>
<b>Business-type Activities:</b>				
Capital Assets not being Depreciated:				
Land and Related Assets .....	\$ 22,314	\$ 7,114	\$ (2,234)	\$ 27,194
Construction-In-Progress .....	479	1,009	(599)	889
Total Capital Assets not being Depreciated .....	<u>22,793</u>	<u>8,123</u>	<u>(2,833)</u>	<u>28,083</u>
Capital Assets being Depreciated:				
Buildings and Improvements .....	43,824	575	—	44,399
Infrastructure .....	204	—	—	204
Machinery and Equipment .....	13,891	1,035	(75)	14,851
Total Capital Assets being Depreciated .....	<u>57,919</u>	<u>1,610</u>	<u>(75)</u>	<u>59,454</u>
Less Accumulated Depreciation for:				
Buildings and Improvements .....	(8,055)	(1,169)	—	(9,224)
Infrastructure .....	(49)	(6)	—	(55)
Machinery and Equipment .....	(10,454)	(873)	43	(11,284)
Total Accumulated Depreciation .....	<u>(18,558)</u>	<u>(2,048)</u>	<u>43</u>	<u>(20,563)</u>
Total Capital Assets being Depreciated, Net .....	<u>39,361</u>	<u>(438)</u>	<u>(32)</u>	<u>38,891</u>
Capital Assets, Net .....	<u>\$ 62,154</u>	<u>\$ 7,685</u>	<u>\$ (2,865)</u>	<u>\$ 66,974</u>

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and “transferred” to the colleges and universities. For fiscal year 2006, \$91.471 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building “transfers” are reported as higher education expenses of governmental activities and as program revenues of component units.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government .....	\$ 9,780
Human Services and Youth Corrections .....	4,945
Corrections, Adult .....	5,248
Public Safety .....	4,194
Courts .....	5,244
Health and Environmental Quality .....	2,542
Employment and Family Services .....	1,989
Natural Resources .....	6,953
Community and Culture .....	477
Business, Labor, and Agriculture .....	1,131
Public Education .....	528
Transportation .....	8,586
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided .....	17,129
Total .....	<u>\$ 68,746</u>

### Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	<b>Utah Housing Corporation</b>	<b>Public Employees Health Program</b>	<b>University of Utah</b>	<b>Utah State University</b>	<b>Nonmajor Component Units</b>	<b>Total</b>
Capital Assets not being Depreciated:						
Land and Other Assets .....	\$ 1,472	\$ —	\$ 56,696	\$ 18,383	\$ 60,460	\$ 137,011
Construction-In-Progress .....	—	—	138,977	36,090	11,255	186,322
Total Capital Assets not being Depreciated...	<u>1,472</u>	<u>—</u>	<u>195,673</u>	<u>54,473</u>	<u>71,715</u>	<u>323,333</u>
Capital Assets being Depreciated:						
Building and Improvements .....	5,064	—	1,136,454	507,247	999,635	2,648,400
Infrastructure .....	—	—	138,236	—	24,019	162,255
Machinery and Equipment .....	1,365	4,426	652,893	164,459	161,980	985,123
Total Capital Assets being Depreciated .....	<u>6,429</u>	<u>4,426</u>	<u>1,927,583</u>	<u>671,706</u>	<u>1,185,634</u>	<u>3,795,778</u>
Less Total Accumulated Depreciation .....	<u>(1,271)</u>	<u>(3,539)</u>	<u>(985,465)</u>	<u>(279,726)</u>	<u>(458,081)</u>	<u>(1,728,082)</u>
Total Capital Assets being Depreciated, Net .	<u>5,158</u>	<u>887</u>	<u>942,118</u>	<u>391,980</u>	<u>727,553</u>	<u>2,067,696</u>
Discretely Presented Component Units –						
Capital Assets, Net .....	<u>\$ 6,630</u>	<u>\$ 887</u>	<u>\$ 1,137,791</u>	<u>\$ 446,453</u>	<u>\$ 799,268</u>	<u>\$ 2,391,029</u>

The State had long-term construction project commitments totaling \$226.16 million at June 30, 2006. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

**Capital Projects Fund**  
**Construction Project Commitments**  
*(Expressed in Thousands)*

<b>Project</b>	<b>Description</b>	<b>Remaining Construction Commitment</b>
02156050	State Capitol Restoration.....	\$ 80,529
02032750	U of U – Marriott Library Renovation .....	37,720
04141680	SLCC – Jordan Campus Health Sciences Building.....	13,838
03215810	WSU – Student Union Renovation .....	11,139
05225750	U of U – University Hospital Expansion.....	10,483
01284750	U of U – John E. and Marva M. Warnock Building .....	8,222
05025110	CUCF – New 288 Bed Facility .....	7,712
03200770	USU – New West Student Housing .....	6,914
02243750	U of U – New Museum of Natural History .....	5,855
03234730	SUU – Old Main HVAC .....	3,527
00144420	DHS – State Hospital Water Pipeline .....	2,935
02053520	DWR – Whiterocks Fish Hatchery .....	2,222
04160150	Courts – Tooele Facility .....	2,085
02278810	WSU – Swenson Gymnasium Renovation.....	1,834
05055410	DHS – USDC New Housing Unit.....	1,767
05027810	WSU – Humanities Building .....	1,547
01009750	U of U – Moran Eye Center Ph II .....	1,475
05049730	SUU – Teacher Education Center.....	1,456
06041110	CUCF – New 192 Bed Expansion.....	1,196
06227790	UVSC – Parking Lot V Ph II.....	1,026
—	All Others.....	22,678
	Total Commitments.....	<u>\$ 226,160</u>

**NOTE 9. LEASE COMMITMENTS**

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were \$1.287 million in principal and \$1.231 million in interest for fiscal year 2006. As of June 30, 2006, the historical cost of the primary government's assets

acquired through capital leases was \$26.257 million of which \$24.719 million was buildings and \$1.538 million was equipment and other depreciable assets. As of June 30, 2006, the accumulated depreciation of the primary government's assets acquired through capital leases was \$8.641 million of which \$8.112 million was buildings and \$529 thousand was equipment and other depreciable assets.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2006 were \$26.206 million for the primary government and \$30.931 million for component units. For fiscal year 2005, the operating lease expenditures were \$25.321 million for the primary government and \$18.635 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2006, were as follows:

**Future Minimum Lease Commitments**  
(Expressed in Thousands)

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units	Total	Primary Government	Component Units	Total
2007.....	\$ 20,949	\$ 32,095	\$ 53,044	\$ 2,548	\$ 15,281	\$ 17,829
2008.....	17,532	30,406	47,938	2,612	13,844	16,456
2009.....	13,642	28,396	42,038	2,186	26,174	28,360
2010.....	8,510	24,158	32,668	2,246	8,503	10,749
2011.....	5,452	22,097	27,549	1,888	23,886	25,774
2012-2016.....	9,982	91,348	101,330	7,507	15,968	23,475
2017-2021.....	5,119	53,760	58,879	6,682	7,522	14,204
2022-2026.....	1,499	39,203	40,702	2,867	3,706	6,573
2027-2031.....	—	899	899	—	—	—
Total Future Minimum Lease Payments	<u>\$ 82,685</u>	<u>\$ 322,362</u>	<u>\$ 405,047</u>	<u>28,536</u>	<u>114,884</u>	<u>143,420</u>
Less Amounts Representing Interest .....				<u>(8,892)</u>	<u>(21,721)</u>	<u>(30,613)</u>
Present Value of Future Minimum Lease Payments .....				<u>\$ 19,644</u>	<u>\$ 93,163</u>	<u>\$ 112,807</u>



**NOTE 10. LONG-TERM LIABILITIES****A. Changes in Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

**Long-term Liabilities**  
(Expressed in Thousands)

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
<b>Governmental Activities</b>					
General Obligation Bonds .....	\$ 1,514,510	\$ —	\$ (137,120)	\$ 1,377,390	\$ 140,220
State Building Ownership Authority					
Lease Revenue Bonds .....	308,898	—	(15,672)	293,226	17,799
Net Unamortized Premiums .....	101,395	—	(18,048)	83,347	—
Deferred Amount on Refunding .....	(25,361)	—	3,815	(21,546)	—
Capital Leases (Note 9) .....	20,931	—	(1,287)	19,644	1,416
Contracts Payable .....	8,527	120	(711)	7,936	2,242
Compensated Absences (Notes 1 and 17) .....	140,029	68,960	(60,227)	148,762	68,075
Claims .....	44,673	12,758	(10,706)	46,725	11,443
Total Governmental Long-term Liabilities .....	<u>\$ 2,113,602</u>	<u>\$ 81,838</u>	<u>\$ (239,956)</u>	<u>\$ 1,955,484</u>	<u>\$ 241,195</u>
<b>Business-type Activities</b>					
Revenue Bonds .....	\$ 1,544,830	\$ 633,675	\$ (40,420)	\$ 2,138,085	\$ 430
State Building Ownership Authority					
Lease Revenue Bonds .....	30,672	8,355	(1,213)	37,814	1,261
Net Unamortized Premiums .....	1,061	34	(107)	988	—
Deferred Amount on Refunding .....	(464)	—	49	(415)	—
Claims and Uninsured Liabilities .....	6,025	102,010	(103,075)	4,960	3,680
Arbitrage Liability (Note 1) .....	66,411	2,750	(1,316)	67,845	275
Total Business-type Long-term Liabilities .....	<u>\$ 1,648,535</u>	<u>\$ 746,824</u>	<u>\$ (146,082)</u>	<u>\$ 2,249,277</u>	<u>\$ 5,646</u>
<b>Component Units</b>					
Revenue Bonds .....	\$ 1,744,744	\$ 420,609	\$ (297,807)	\$ 1,867,546	\$ 133,050
Net Unamortized Premiums/(Discounts) .....	(764)	655	(1)	(110)	(56)
Capital Leases/Contracts Payable (Notes 9 and 10) .....	96,722	16,395	(14,658)	98,459	12,150
Notes Payable .....	43,856	101,455	(2,617)	142,694	7,107
Claims .....	110,741	536,244	(521,192)	125,793	73,437
Leave/Termination Benefits (Note 1) .....	75,754	44,930	(41,007)	79,677	20,192
Total Component Unit Long-term Liabilities .....	<u>\$ 2,071,053</u>	<u>\$ 1,120,288</u>	<u>\$ (877,282)</u>	<u>\$ 2,314,059</u>	<u>\$ 245,880</u>

Compensated absences of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

**B. General Obligation Bonds**

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt

service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2006, the State had \$130.942 million and \$32.398 million of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

General obligation bonds payable consist of the following:

**General Obligation Bonds Payable**  
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2006
1997 A–E Highway/Capital Facility Issue .....	07/01/97	2001–2007	4.80% to 5.50%	\$ 200,000	\$ 20,425
1997 F Highway Issue.....	08/01/97	2001–2007	5.00% to 5.50%	\$ 205,000	33,850
1998 A Highway/Capital Facility Issue.....	07/07/98	2001–2008	5.00%	\$ 265,000	53,250
2001 B Highway/Capital Facility Issue.....	07/02/01	2004–2009	4.50%	\$ 348,000	141,675
2002 A Highway/Capital Facility Issue.....	06/27/02	2003–2011	3.00% to 5.25%	\$ 281,200	122,250
2002 B Refunding Issue.....	07/31/02	2004–2012	3.00% to 5.38%	\$ 253,100	250,860
2003 A Highway/Capital Facility Issue.....	06/26/03	2005–2013	2.00% to 5.00%	\$ 407,405	314,025
2004 A Refunding Issue .....	03/02/04	2010–2016	4.00% to 5.00%	\$ 314,775	314,775
2004 B Highway/Capital Facility Issue.....	07/01/04	2005–2019	4.75% to 5.00%	\$ 140,635	126,280
Total General Obligation Bonds Outstanding .....					1,377,390
Plus Unamortized Bond Premium .....					79,300
Less Deferred Amount on Refunding .....					(19,845)
Total General Obligation Bonds Payable .....					<u>\$ 1,436,845</u>

**General Obligation Bond Issues**  
**Debt Service Requirements to Maturity**  
**For Fiscal Years Ended June 30**  
(Expressed in Thousands)

Fiscal Year	Principal						
	1997 A–E Highway/Capital Facility	1997 F Highway Bonds	1998 A Highway/Capital Facility	2001 B Highway/Capital Facility	2002 A Highway/Capital Facility	2002 B Refunding Bonds	2003 A Highway/Capital Facility
2007 .....	\$ 9,925	\$ 16,475	\$ 16,775	\$ 33,250	\$ 48,075	\$ 160	\$ 7,775
2008 .....	10,500	17,375	17,750	34,650	50,575	120	12,825
2009 .....	—	—	18,725	36,125	5,525	29,455	59,300
2010 .....	—	—	—	37,650	5,750	50,835	61,125
2011 .....	—	—	—	—	6,000	53,670	50,025
2012–2016 ....	—	—	—	—	6,325	116,620	122,975
2017–2021 ....	—	—	—	—	—	—	—
Total .....	<u>\$ 20,425</u>	<u>\$ 33,850</u>	<u>\$ 53,250</u>	<u>\$ 141,675</u>	<u>\$ 122,250</u>	<u>\$ 250,860</u>	<u>\$ 314,025</u>

Continues Below

Fiscal Year	Principal				
	2004 A Refunding Bonds	2004 B Highway/Capital Facility	Total Principal Required	Interest Required	Total Amount Required
2007 .....	\$ —	\$ 7,785	\$ 140,220	\$ 60,597	\$ 200,817
2008 .....	—	6,865	150,660	53,100	203,760
2009 .....	—	9,970	159,100	45,845	204,945
2010 .....	—	11,180	166,540	37,897	204,437
2011 .....	39,310	25,755	174,760	29,350	204,110
2012–2016 ....	218,060	46,000	509,980	60,614	570,594
2017–2021 ....	57,405	18,725	76,130	1,461	77,591
Total .....	<u>\$ 314,775</u>	<u>\$ 126,280</u>	<u>\$ 1,377,390</u>	<u>\$ 288,864</u>	<u>\$ 1,666,254</u>

**C. Revenue Bonds**

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

**Governmental Activities**

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies and other organizations. The bonds are secured by the facilities and repayment is made from lease income. The outstanding bonds payable at June 30, 2006, are reported as a long-term liability of the governmental activities, except for \$37.302 million and \$1.04 million which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2006, the average interest rate for the SBOA Series 2001 C variable rate demand lease revenue bonds was 3 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 3.98 percent, which was the rate in effect at yearend.

Revenue bonds payable consist of the following:

**Revenue Bonds Payable – Component Units**  
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2006
Utah Housing Corporation Issues .....	1985–2006	2006–2050	Variable and 1.50% to 10.30%	\$ 2,616,328	\$ 1,478,105
Colleges and Universities Revenue Bonds .....	1987–2006	2006–2035	Variable and 1.90% to 6.75%	\$ 605,635	389,441
Total Revenue Bonds Outstanding .....					1,867,546
Colleges and Universities Less Unamortized Bond Discount .....					(110)
Total Revenue Bonds Payable .....					<u>\$ 1,867,436</u>

**Business-type Activities**

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs have \$391.635 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds that are set by an auction procedure every 28 days in the amount of \$847.1 million and \$859.725 million of bonds that are auctioned every 35 days.

**Discrete Component Units**

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

**Revenue Bonds Payable – Primary Government**  
(Expressed in Thousands)

<b>Bond Issue</b>	<b>Date Issued</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Original Issue</b>	<b>Balance June 30, 2006</b>
<b>Governmental Activities</b>					
SBOA Lease Revenue Bonds:					
Series 1992 A .....	07/15/92	1993–2011	5.30% to 5.75%	\$ 26,200	\$ 11,400
Series 1992 B .....	07/15/92	1994–2011	4.00% to 6.00%	\$ 1,380	620
Series 1993 A .....	12/01/93	1995–2013	4.50% to 5.25%	\$ 6,230	2,975
Series 1995 A .....	07/01/95	1996–2007	5.00% to 5.75%	\$ 92,260	4,115
Series 1996 A .....	07/01/96	1997–2007	5.50% to 6.00%	\$ 42,895	1,930
Series 1996 B .....	11/01/96	1999–2007	5.00%	\$ 16,875	1,150
Series 1998 A .....	07/01/98	1999–2008	3.75% to 5.00%	\$ 24,885	1,445
Series 1998 C .....	08/15/98	2000–2019	3.80% to 5.50%	\$ 101,557	100,190
Series 1999 A .....	08/01/99	2001–2009	5.25%	\$ 6,960	830
Series 2001 A .....	11/21/01	2005–2021	4.00% to 5.00%	\$ 69,850	64,675
Series 2001 B .....	11/21/01	2002–2024	3.00% to 5.75%	\$ 14,240	13,245
Series 2001 C .....	11/21/01	2005–2022	variable	\$ 30,300	30,300
Series 2003 .....	12/30/03	2005–2025	2.00% to 5.00%	\$ 20,820	19,720
Series 2004 A .....	10/26/04	2005–2027	3.00% to 5.25%	\$ 32,458	32,016
Series 2004 B .....	10/26/04	2005–2013	3.00% to 5.00%	\$ 8,920	8,615
Total Lease Revenue Bonds Outstanding..					293,226
Plus Unamortized Bond Premium .....					4,047
Less Deferred Amount on Refunding .....					(1,701)
Total Lease Revenue Bonds Payable .....					<u>\$ 295,572</u>
<b>Business-type Activities</b>					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures .....	1988–2006	1998–2046	Variable and 4.45% to 6.00%	\$2,181,050	\$ 2,127,725
Office Facility Bond Fund .....	2002, 2004	2003–2024	3.00% to 5.13%	\$ 11,780	10,360
Total Revenue Bonds Outstanding .....					2,138,085
Plus Unamortized Bond Premium .....					45
Total Revenue Bonds Payable .....					<u>\$ 2,138,130</u>
SBOA Lease Revenue Bonds:					
Series 1995 A .....	07/01/95	1996–2007	5.00% to 5.70%	\$ 740	\$ 40
Series 1996 A .....	07/01/96	1997–2007	5.50% to 6.00%	\$ 1,830	80
Series 1997 A .....	12/01/97	1999–2008	4.60% to 4.70%	\$ 4,150	385
Series 1998 A .....	07/01/98	1999–2008	4.40% to 5.00%	\$ 825	65
Series 1998 C .....	08/15/98	2000–2019	3.80% to 5.50%	\$ 3,543	3,495
Series 1999 A .....	08/01/99	2001–2009	5.25%	\$ 2,495	320
Series 2001 B .....	11/21/01	2004–2023	3.25% to 5.25%	\$ 11,540	10,350
Series 2003 .....	12/30/03	2005–2025	2.00% to 5.00%	\$ 1,905	1,765
Series 2004 A .....	10/26/04	2005–2025	3.00% to 5.25%	\$ 13,347	12,959
Series 2006 A .....	01/10/06	2006–2027	3.50% to 5.00%	\$ 8,355	8,355
Total Lease Revenue Bonds Outstanding..					37,814
Plus Unamortized Bond Premium .....					943
Less Deferred Amount on Refunding .....					(415)
Total Lease Revenue Bonds Payable .....					<u>\$ 38,342</u>
Total Lease Revenue Revenue Bonds Payable .....					<u>\$ 2,472,044</u>

**Revenue Bond Issues – Primary Government**  
**Debt Service Requirements to Maturity**  
**For Fiscal Years Ended June 30**  
*(Expressed in Thousands)*

Fiscal Year	Principal							
	Utah State Student Assistance Programs	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1995 A Utah State Building Ownership Authority	1996 A Utah State Building Ownership Authority	1996 B Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority
2007.....	\$ 430	\$ 1,640	\$ 90	\$ 360	\$ 4,155	\$ 2,010	\$ 1,150	\$ 190
2008.....	72,145	1,735	95	380	—	—	—	195
2009.....	5,355	1,835	100	400	—	—	—	—
2010.....	76,610	1,945	105	425	—	—	—	—
2011.....	510	2,060	110	445	—	—	—	—
2012–2016.....	27,925	2,185	120	965	—	—	—	—
2017–2021.....	3,705	—	—	—	—	—	—	—
2022–2026.....	136,395	—	—	—	—	—	—	—
2027–2031.....	80,000	—	—	—	—	—	—	—
2032–2036.....	396,905	—	—	—	—	—	—	—
2037–2041.....	743,105	—	—	—	—	—	—	—
2042–2046.....	595,000	—	—	—	—	—	—	—
Total.....	<u>\$2,138,085</u>	<u>\$ 11,400</u>	<u>\$ 620</u>	<u>\$ 2,975</u>	<u>\$ 4,155</u>	<u>\$ 2,010</u>	<u>\$ 1,150</u>	<u>\$ 385</u>

Continues Below

Fiscal Year	Principal							
	1998 A Utah State Building Ownership Authority	1998 C Utah State Building Ownership Authority	1999 A Utah State Building Ownership Authority	2001 A Utah State Building Ownership Authority	2001 B Utah State Building Ownership Authority	2001 C Utah State Building Ownership Authority	2003 Utah State Building Ownership Authority	2004 A Utah State Building Ownership Authority
2007.....	\$ 735	\$ 1,170	\$ 365	\$ 3,125	\$ 935	\$ 1,000	\$ 1,180	\$ 865
2008.....	775	7,715	380	3,250	965	1,400	1,210	895
2009.....	—	8,130	405	3,375	1,005	1,500	1,240	1,930
2010.....	—	8,575	—	3,500	1,055	1,600	1,275	2,405
2011.....	—	9,065	—	3,650	1,090	1,600	1,325	2,550
2012–2016.....	—	47,985	—	20,975	6,150	9,500	5,425	14,735
2017–2021.....	—	21,045	—	26,800	7,740	11,300	5,115	12,540
2022–2026.....	—	—	—	—	4,655	2,400	4,715	8,345
2027–2031.....	—	—	—	—	—	—	—	710
2032–2036.....	—	—	—	—	—	—	—	—
2037–2041.....	—	—	—	—	—	—	—	—
2042–2046.....	—	—	—	—	—	—	—	—
Total.....	<u>\$ 1,510</u>	<u>\$ 103,685</u>	<u>\$ 1,150</u>	<u>\$ 64,675</u>	<u>\$ 23,595</u>	<u>\$ 30,300</u>	<u>\$ 21,485</u>	<u>\$ 44,975</u>

Continues Below

**Revenue Bond Issues – Primary Government (continued)**  
**Debt Service Requirements to Maturity**  
**For Fiscal Years Ended June 30**  
*(Expressed in Thousands)*

Fiscal Year	Principal		Total Principal Required	Interest Required	Total Amount Required
	2004 B Utah State Building Ownership Authority	2006 A Utah State Building Ownership Authority			
2007 .....	\$ 90	\$ —	\$ 19,490	\$ 114,625	\$ 134,115
2008 .....	1,295	280	92,715	113,043	205,758
2009 .....	1,340	290	26,905	109,855	136,760
2010 .....	1,380	300	99,175	107,873	207,048
2011.....	1,455	315	24,175	104,481	128,656
2012–2016 .....	3,055	1,755	140,775	502,397	643,172
2017–2021 .....	—	2,140	90,385	472,387	562,772
2022–2026 .....	—	2,670	159,180	451,069	610,249
2027–2031 .....	—	605	81,315	412,623	493,938
2032–2036 .....	—	—	396,905	363,034	759,939
2037–2041 .....	—	—	743,105	265,668	1,008,773
2042–2046 .....	—	—	595,000	140,587	735,587
Total .....	<u>\$ 8,615</u>	<u>\$ 8,355</u>	<u>\$ 2,469,125</u>	<u>\$ 3,157,642</u>	<u>\$ 5,626,767</u>

**Revenue Bond Issues – Component Units**  
**Debt Service Requirements to Maturity**  
**For Fiscal Years Ended June 30**  
*(Expressed in Thousands)*

Fiscal Year	Principal				Total Principal Required	Interest Required	Total Amount Required
	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units			
2007 .....	\$ 115,668	\$ 9,513	\$ 3,025	\$ 4,844	\$ 133,050	\$ 82,335	\$ 215,385
2008 .....	39,769	9,642	3,178	5,087	57,676	81,721	139,397
2009 .....	42,487	11,026	3,319	5,449	62,281	79,117	141,398
2010 .....	43,004	11,551	3,462	5,710	63,727	76,378	140,105
2011.....	42,937	12,529	3,629	5,233	64,328	73,508	137,836
2012–2016 .....	181,075	54,746	20,224	23,827	279,872	325,580	605,452
2017–2021 .....	158,125	48,612	14,668	17,894	239,299	263,424	502,723
2022–2026 .....	214,520	29,707	12,800	11,170	268,197	201,452	469,649
2027–2031 .....	279,388	23,541	11,625	10,330	324,884	128,931	453,815
2032–2036 .....	260,814	—	11,550	1,550	273,914	52,390	326,304
2037–2041 .....	60,029	—	—	—	60,029	16,735	76,764
2042–2046 .....	30,179	—	—	—	30,179	6,814	36,993
2047–2050 .....	10,110	—	—	—	10,110	1,389	11,499
Total .....	<u>\$ 1,478,105</u>	<u>\$ 210,867</u>	<u>\$ 87,480</u>	<u>\$ 91,094</u>	<u>\$ 1,867,546</u>	<u>\$ 1,389,774</u>	<u>\$ 3,257,320</u>

**D. Conduit Debt Obligations**

Of the Utah Housing Corporation (component unit) bonds outstanding, \$304.186 million were issued as multi-family purchase bonds. Of those bonds, \$298.286 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the Salt Lake City Marriott University Park Hotel separate from the University. The bonds are payable solely from revenues of the hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. The outstanding balance of the bonds at June 30, 2006, is \$6.425 million.

**E. Demand Bonds**

- The Utah State Building Ownership Authority (SBOA) issued \$30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thüringen Girozentrale (Helaba) acting through its New York Branch in the amount of \$30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 18.5 basis points paid on a quarterly basis. The letter of credit expires on December 31, 2015, and as of June 30, 2006, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

The letter of credit also has a take out agreement for the bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the take out agreement were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of \$8.406 million a year for five years, based on the maximum rate.

- The Student Loan Purchase Program had \$391.635 million of demand bonds outstanding at June 30, 2006, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit

agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

An unused irrevocable direct-pay letter of credit expiring November 15, 2011, in the amount of \$37.462 million supports the Series 1993 A bonds of \$35 million. Standby bond purchase agreements of \$25.336 million expiring November 20, 2013 to support the Series 1988 C bonds of \$25 million, \$85.294 million expiring November 16, 2025, support the Series 1996 Q and 1997 R bonds of \$101.055 million and \$158.753 million expiring February 11, 2024 to support the 2005 Series W and X bonds of \$151.08 million. As of June 30, 2006, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

- The Utah Housing Corporation (component unit) had \$695.2 million of bonds outstanding at June 30, 2006, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

In the event the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with five different banks totaling \$900 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 17.5 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of \$13 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 4.01 percent, which is the rate in effect as of June 30, 2006.

In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable standby bond purchase agreement to pay the purchase price of the bonds delivered to it. The standby bond purchase agreement is with J.P. Morgan Chase Bank and is valid through July 30, 2010. As of June 30, 2006, the University had not drawn any funds under the standby bond purchase agreement.

**F. Defeased Bonds and Bond Refunding**

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2006, the total amount outstanding of defeased general obligation bonds was \$571.06 million. At June 30, 2006, the total amount outstanding of defeased revenue bonds was \$55.87 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2006, \$145.509 million of college and university bonds outstanding are considered defeased.

#### G. Contracts Payable

Component unit capital leases/contracts payable include \$5.294 million in life annuity contracts.

#### H. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 25 years. They are secured by the related assets.

**Notes Payable Debt Service Requirements to Maturity  
Component Units  
For Fiscal Years Ending June 30  
(Expressed in Thousands)**

Fiscal Year	Principal				Total Principal Required	Interest Required	Total Amount Required
	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units			
2007 .....	\$ 22	\$ 578	\$ 1,355	\$ 5,154	\$ 7,109	\$ 2,266	\$ 9,375
2008 .....	24	615	1,431	474	2,544	1,942	4,486
2009 .....	27	652	1,465	545	2,689	1,799	4,488
2010 .....	30	699	1,460	881	3,070	1,646	4,716
2011 .....	33	749	1,422	289	2,493	19,027	21,520
2012–2016 .....	171	4,641	5,317	860	10,989	93,260	104,249
2017–2021 .....	—	4,929	4,282	720	9,931	89,961	99,892
2022–2026 .....	—	35,758	3,095	522	39,375	53,821	93,196
2027–2031 .....	—	64,323	—	171	64,494	22,008	86,502
Total .....	<u>\$ 307</u>	<u>\$112,944</u>	<u>\$ 19,827</u>	<u>\$ 9,616</u>	<u>\$142,694</u>	<u>\$285,730</u>	<u>\$428,424</u>



**I. Debt Service Requirements for Derivatives**

**Swap Payments and Associated Debt** — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into 60 separate pay-fixed, receive-variable interest rate swaps and an interest rate cap agreement as of June 30, 2006. Using rates as of June 30, 2006, debt service requirements of the

Corporation's outstanding variable-rate debt and net swap payments are summarized below (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 91 for Utah Housing Corporation.

**Utah Housing Corporation**  
**Swap Payments and Associated Debt**  
**For Fiscal Years Ending June 30**  
*(Expressed in Thousands)*

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2007 .....	\$ 14,865	\$ 26,064	\$ 1,896	\$ 42,825
2008 .....	3,770	25,350	2,919	32,039
2009 .....	3,615	25,166	2,904	31,685
2010 .....	3,580	24,990	2,890	31,460
2011 .....	3,555	24,816	2,871	31,242
2012–2016 .....	18,770	121,931	14,018	154,719
2017–2021 .....	58,325	114,959	12,537	185,821
2022–2026 .....	103,535	98,746	9,865	212,146
2027–2031 .....	199,095	69,726	4,914	273,735
2032–2036 .....	194,945	23,894	(523)	218,316
2037–2041 .....	14,740	677	(165)	15,252
Total .....	<u>\$ 618,795</u>	<u>\$ 556,319</u>	<u>\$ 54,126</u>	<u>\$ 1,229,240</u>

**NOTE 11. GOVERNMENTAL FUND BALANCES AND NET ASSETS RESTRICTED BY ENABLING LEGISLATION****A. Governmental Fund Balances – Reserved and Designated**

The State's reserved fund balances represent: (1) **Nonlapsing Appropriations** which include continuing appropriations or

nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or (2) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2006, follows:

<b>Reserved Fund Balances</b> (Expressed in Thousands)			
	<b>Nonlapsing Appropriations</b>	<b>Restricted Purposes</b>	<b>Total Reserved</b>
<b>General Fund:</b>			
Legislature .....	\$ 3,571	\$ —	\$ 3,571
Governor.....	13,611	10,162	23,773
Elected Officials .....	1,214	1	1,215
Administrative Services.....	4,928	951	5,879
Tax Commission.....	10,577	14,437	25,014
Human Services.....	7,653	5,100	12,753
Corrections .....	6,235	1	6,236
Public Safety.....	25,357	8,146	33,503
Courts .....	1,259	6,391	7,650
Health .....	9,241	3,512	12,753
Environmental Quality .....	2,442	8,695	11,137
Higher Education.....	292	1	293
Employment and Family Services .....	2,966	15,636	19,549
Natural Resources.....	14,787	17,924	32,711
Community and Culture .....	2,491	2,482	4,973
Business, Labor, and Agriculture.....	10,965	9,789	20,754
Industrial Assistance Account.....	—	31,304	31,304
Loans to Internal Service Funds .....	—	10,740	10,740
Tobacco Settlement Funds.....	—	3,190	3,190
Oil Overcharge Funds.....	—	6,694	6,694
Mineral Bonus Account.....	—	20,040	20,040
Other Purposes .....	1,315	6,397	7,712
Total .....	<u>\$ 118,904</u>	<u>\$ 181,593</u>	<u>\$ 301,444</u>
<b>Uniform School Fund:</b>			
Minimum School Program .....	\$ 27,264	\$ —	\$ 27,264
State Office of Education.....	12,143	—	12,143
School Building Program .....	—	8,558	8,558
School Land Interest.....	—	18,509	18,509
Total .....	<u>\$ 39,407</u>	<u>\$ 27,067</u>	<u>\$ 66,474</u>
<b>Transportation Fund:</b>			
Transportation.....	\$ 3,083	\$ —	\$ 3,083
Public Safety.....	—	8,685	8,685
Corridor Preservation .....	—	2,157	2,157
Aeronautical Programs .....	—	7,435	7,435
Salt Lake County Road Construction .....	—	23,601	23,601
Total .....	<u>\$ 3,083</u>	<u>\$ 41,878</u>	<u>\$ 44,961</u>
<b>Transportation Investment Fund:</b>			
Centennial Highway Program.....	<u>\$ —</u>	<u>\$ 143,490</u>	<u>\$ 143,490</u>
<b>Trust Lands Fund:</b>			
Funds Held as Permanent Investments .....	<u>\$ —</u>	<u>\$ 751,024</u>	<u>\$ 751,024</u>
<b>Non-major Governmental Funds:</b>			
Capital Projects.....	\$ 226,160	\$ 521	\$ 226,681
Debt Service .....	—	6,390	6,390
Tobacco Settlement Funds.....	—	24,671	24,671
Environmental Reclamation .....	—	16,501	16,501
Other Purposes .....	—	6,391	6,391
Total .....	<u>\$ 226,160</u>	<u>\$ 54,474</u>	<u>\$ 280,634</u>

**Designated Fund Balances**  
(Expressed in Thousands)

	<b>General Fund</b>	<b>Uniform School Fund</b>	<b>Transportation Fund</b>	<b>Transportation Investment Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Designated for:</b>						
Budget Reserve (Rainy Day) Account.....	\$ 131,560	\$ —	\$ —	\$ —	\$ —	\$ 131,560
Education Budget Reserve Account.....	—	123,366	—	—	—	123,366
Postemployment and Other Liabilities.....	195,053	224,665	48,107	672	—	468,497
Fiscal Year 2007 Appropriations:						
Line Item Appropriations.....	155,489	304,582	—	—	—	460,071
Industrial Assistance Account.....	1,408	—	—	—	—	1,408
Capital Projects.....	—	—	—	—	100	100
Debt Service .....	—	—	—	—	14,332	14,332
<b>Total.....</b>	<b>\$ 483,510</b>	<b>\$ 652,613</b>	<b>\$ 48,107</b>	<b>\$ 672</b>	<b>\$ 14,432</b>	<b>\$1,199,334</b>

**B. Net Assets Restricted by Enabling Legislation**

The State's net assets restricted by enabling legislation represent resources which a party external to a government—such as citizens, public interest groups, or the judiciary—can compel the government to use only for the purpose specified by the legislation.

The government-wide Statement of Net Assets reports \$3.519 billion of restricted net assets, of which \$17.743 million is restricted by enabling legislation.

**NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE**

Funds reporting a deficit total net assets position at June 30, 2006, are (in thousands):

**Private Purpose Trust Funds:**

Employers' Reinsurance .....	\$ (162,331)
Petroleum Storage Tank.....	\$ (48,515)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust

only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2006, are (in thousands):

**Internal Service Funds:**

General Services.....	\$ (578)
Fleet Operations .....	\$ (17,327)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – General Government Fund (nonmajor governmental fund) reported a \$93.348 million deficit unreserved undesignated fund balance as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund this deficit.

**NOTE 13. INTERFUND TRANSFERS**

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act*. Interfund transfers for the fiscal year ended June 30, 2006, are as follows (in thousands):

	<b>Transfers In:</b>					
	<b>Governmental Funds</b>					
	<b>General Fund</b>	<b>Uniform School Fund</b>	<b>Transportation Fund</b>	<b>Transportation Investment Fund</b>	<b>Trust Lands Fund</b>	<b>Nonmajor Governmental Funds</b>
<b>Transfers Out:</b>						
General Fund.....	\$ —	\$ 6,215	\$ 53,449	\$ 120,000	\$ 22	\$ 115,647
Uniform School Fund .....	226,116	—	—	—	—	63,957
Transportation Fund .....	34,581	—	—	76,832	—	9,411
Transportation Investment Fund .	—	—	30,000	—	—	126,393
Nonmajor Governmental Funds ..	7,564	—	—	—	—	7,608
Unemployment Compensation ....	2,160	—	—	—	—	—
Water Loan Programs.....	3,198	—	—	—	—	—
Nonmajor Enterprise Funds .....	50,004	—	—	—	—	—
Internal Service Funds .....	66	—	—	—	—	2,500
<b>Total Transfers In .....</b>	<b>\$ 323,689</b>	<b>\$ 6,215</b>	<b>\$ 83,449</b>	<b>\$ 196,832</b>	<b>\$ 22</b>	<b>\$ 325,516</b>

Continues Below

	<b>Enterprise Funds</b>			
	<b>Water Loan Programs</b>	<b>Nonmajor Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Total Transfers Out</b>
<b>Transfers Out:</b>				
General Fund.....	\$ 1,582	\$ 72,807	\$ 614	\$ 370,336
Uniform School Fund .....	—	—	—	290,073
Transportation Fund .....	—	—	—	120,824
Transportation Investment Fund .	—	—	—	156,393
Nonmajor Governmental Funds ..	—	—	—	15,172
Unemployment Compensation ....	—	—	—	2,160
Water Loan Programs.....	—	—	—	3,198
Nonmajor Enterprise Funds .....	—	—	14	50,018
Internal Service Funds .....	—	—	13	2,579
<b>Total Transfers In .....</b>	<b>\$ 1,582</b>	<b>\$ 72,807</b>	<b>\$ 641</b>	<b>\$ 1,010,753</b>

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2006, the legislature authorized transfers of \$66 thousand from the Internal Service Funds to the General Fund to subsidize general fund revenues. In addition, the Legislature authorized payments of \$682.886 million to the Colleges and Universities. Payments to Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

**NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS****A. Litigation**

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of \$142 million including interest and attorneys' fees.
- A lawsuit was filed by the Tobacco Companies against the 45 states participating in a master settlement agreement in an effort to recoup tobacco settlement payments made in 2003. The plaintiffs allege that they are entitled to a non-participating manufacturer adjustment that will allow them to take a credit against the 2003 payment obligations. It is impossible to determine the potential liability; however, any settlement will be a reduction in future State tobacco receipts.
- In addition to the items above, the State is contesting other legal actions totaling over \$16 million plus attorneys' fees and interest and other cases where the amount of potential loss is undeterminable.

**B. Contingencies**

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, the allowability of \$10.1 million of federal expenditures is in question. These costs will be contested with the federal agency involved, and management estimates the liability to be less than the questioned amounts. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2006, is in process and management expects proposed disallowances to be immaterial.
- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.
- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately \$18 million per year for fiscal years 2007 and 2008. The State received \$3.445 million in fiscal year 2006. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and

federal obligation authority becoming available and future approval by the FHWA.

- The State is totally self-insured against liability claims and up to \$2.5 million in property claims incurred prior to July 1, 2006. For property claims incurred July 1, 2006 and after, the State is totally self-insured up to \$3.5 million. According to an actuarial study and other known factors, \$46.725 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Administrative Services Risk Management Fund (internal service fund).
- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953*, as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guaranteed Bonds.

In the event a school board is unable to make the scheduled debt service payments on its Guaranteed Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guaranteed Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guaranteed Bonds for any significant period of time.

Local school boards have \$1.687 billion principal amount of Guaranteed Bonds outstanding at June 30, 2006. The State cannot predict the amount of bonds that may be guaranteed in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most of the smaller manufacturers have joined the agreement. The State received \$26.029 million from tobacco companies in fiscal year 2006 and expects to receive approximately \$29.837 million in fiscal year 2007. Annual payments will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

**C. Commitments**

- At June 30, 2006, the Industrial Assistance Program of the General

Fund had grant commitments of \$1.409 million, contingent on participating companies meeting certain performance criteria.

- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2005, committed to fund certain private equity partnerships and real estate projects for an amount of \$3.144 billion. Funding of \$1.948 billion has been provided, leaving an unfunded commitment of \$1.196 billion as of December 31, 2005, which will be funded over the next five years.
- As of June 30, 2006, the Utah Housing Corporation (major component unit) has committed to purchase mortgages under the warehouse loans and the Single-Family Mortgage Purchase Program in the amount of \$39.4 million. The Corporation has a Revolving Credit Loan with a community development company in the amount of \$2.5 million due August 3, 2007. At June 30, 2006, the outstanding balance was \$412.5 thousand and bears interest at the LIBOR Rate plus 2.5 percent.
- At June 30, 2006, the enterprise funds had loan commitments of approximately \$251.182 million and grant commitments of approximately \$23.607 million.
- At June 30, 2006, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, major enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately \$2.325 billion. Also, at June 30, 2006, the Student Assistance Programs had commitments to purchase approximately \$341.677 million in student loans and provide approximately \$10.212 million in reductions to borrower loan balances.
- At June 30, 2006, the Department of Transportation had construction and other contract commitments of \$516.569 million, of which \$321.641 million is for Transportation Investment Fund (special revenue fund) projects and \$194.928 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

#### NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of \$185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had \$9.8 million of revenue bonds outstanding at June 30, 2006. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The Utah State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the Utah State Auditor's Office.

#### NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

##### A. Utah Retirement Systems

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2005, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Fire-fighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;
- The Public Safety Retirement System, which is a defined-benefit mixed agent and cost-sharing, multiple-employer retirement system;
- The Judges Retirement System and the Utah Governors and Legislative Pension Plan, which are single-employer service employee retirement systems; and four defined contribution plans comprised of the 401(k) Plan, 457 Plan, Roth and Traditional IRA Plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options

require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

#### Summary of Eligibility and Benefits

	<b>Contributory System</b>	<b>Noncontributory System</b>	<b>Public Safety System</b>	<b>Firefighters System</b>	<b>Judges System</b>
Highest Average Salary	Highest 5 Years	Highest 3 Years		Highest 3 Years	Highest 2 Years
Years of Service	30 years any age	30 years any age		20 years any age	25 years any age
Required and/or Age	*20 years age 60	*25 years any age		10 years age 60	*20 years age 55
Eligible for Benefit	*10 years age 62 4 years age 65	*20 years age 60 *10 years age 62 4 years age 65		4 years age 65	10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

\*With actuarial reductions

Former governors at age 65 receive \$1,140 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of \$25.20 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future

benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

#### Participants December 31, 2005

	<b>Non-contributory System</b>	<b>Contributory System</b>	<b>Public Safety System</b>	<b>Fire-fighters System</b>	<b>Judges System</b>	<b>Governors and Legislative Pension Plan</b>
Number of participating:						
Employers.....	401	161	120	48	1	1
Members:						
Active.....	85,637	3,198	7,239	1,636	108	88
Terminated vested .....	26,028	1,437	1,376	94	6	96
Retirees and beneficiaries:						
Service benefits.....	25,710	6,171	3,252	909	88	230
Disability benefits .....	—	4	16	65	—	—

Employer contribution rates consist of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (2) an amount for amortization of the unfunded, or excess funded actuarial accrued

liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly,

the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

**State of Utah's Employer Contributions  
Required and Paid  
For Fiscal Years Ended June 30  
(Expressed in Thousands)**

	<b>Contributory System</b>	<b>Non- contributory System</b>	<b>Public Safety System</b>	<b>Fire- fighters System</b>	<b>Judges System</b>	<b>Total All Systems</b>
<b>Primary Government:</b>						
2006 .....	\$ 4,197	\$ 87,445	\$ 22,701	\$ 49	\$ 1,007	\$ 115,399
2005 .....	\$ 4,335	\$ 80,966	\$ 21,112	\$ 52	\$ 814	\$ 107,279
2004 .....	\$ 3,894	\$ 67,745	\$ 19,165	\$ 50	\$ 782	\$ 91,636
2003 .....	\$ 3,683	\$ 60,033	\$ 16,713	\$ 47	\$ 539	\$ 81,015
2002 .....	\$ 5,777	\$ 93,037	\$ 25,921	\$ 58	\$ 928	\$ 125,721
<b>Component Units:</b>						
<b>Colleges and Universities:</b>						
2006 .....	\$ 2,117	\$ 37,813	\$ 425	\$ —	\$ —	\$ 40,355
2005 .....	\$ 2,201	\$ 35,195	\$ 422	\$ —	\$ —	\$ 37,818
2004 .....	\$ 1,996	\$ 30,434	\$ 411	\$ —	\$ —	\$ 32,841
2003 .....	\$ 1,840	\$ 29,409	\$ 375	\$ —	\$ —	\$ 31,624
2002 .....	\$ 1,904	\$ 28,028	\$ 399	\$ —	\$ —	\$ 30,331
<b>Other:</b>						
2006 .....	\$ 60	\$ 2,385	\$ —	\$ —	\$ —	\$ 2,445
2005 .....	\$ 59	\$ 2,273	\$ —	\$ —	\$ —	\$ 2,332
2004 .....	\$ 52	\$ 1,913	\$ —	\$ —	\$ —	\$ 1,965
2003 .....	\$ 44	\$ 1,609	\$ —	\$ —	\$ —	\$ 1,653
2002 .....	\$ 43	\$ 258	\$ —	\$ —	\$ —	\$ 301
<b>Total Primary Government and Component Units:</b>						
2006 .....	\$ 6,374	\$ 127,643	\$ 23,126	\$ 49	\$ 1,007	\$ 158,199
2005 .....	\$ 6,595	\$ 118,434	\$ 21,534	\$ 52	\$ 814	\$ 147,429
2004 .....	\$ 5,942	\$ 100,092	\$ 19,576	\$ 50	\$ 782	\$ 126,442
2003 .....	\$ 5,567	\$ 91,051	\$ 17,088	\$ 47	\$ 539	\$ 114,292
2002 .....	\$ 7,724	\$ 121,323	\$ 26,320	\$ 58	\$ 928	\$ 156,353



The following schedule summarizes contribution rates in effect at December 31, 2005:

**Contribution Rates as a Percent of Covered Payroll**

<b>System</b>	<b>Member</b>	<b>Employer</b>	<b>Other</b>
Contributory.....	6.00%	7.08% – 8.89%	—
Noncontributory.....	—	11.09% – 13.38%	—
Public Safety:			
Contributory.....	10.50% – 13.74%	7.95% – 19.96%	—
Noncontributory.....	—	19.34% – 32.52%	—
Firefighters:			
Division A.....	8.61%	—	12.16%
Division B.....	7.83%	—	12.16%
Judges:			
Contributory.....	2.00%	6.26%	19.19%
Noncontributory.....	—	8.26%	19.19%
Governors and Legislative .....	—	—	—

**Deferred Compensation Plans**

The 401(k), 457, Roth, and Traditional IRA Plans administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 351 employers participating in the 401(k) Plan and 154 employers participating in the 457 Plan. There are 127,279 plan participants in the 401(k) Plan, 13,825 participants in the 457 Plan, 259 participants in the Roth IRA Plan, and 118 participants in the Traditional IRA Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The defined contribution plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2006, by employees and employers are as follows: for Primary Government, \$35.55 million and \$12.368 million; for Component

Units – Colleges and Universities, \$4.134 million and \$4.21 million; for Component Units – Other, \$857 thousand and \$570 thousand; and the combined total for all is \$40.541 million and \$17.148 million, respectively.

**Pension Receivables and Investments**

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 12 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 12 percent, approximately 3 percent are U.S. Government debt securities and 9 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

**Pension Receivables and Investments**  
(Expressed in Thousands)

	<b>Non- contributory System</b>	<b>Contributory System</b>	<b>Public Safety System</b>	<b>Fire- fighters System</b>	<b>Judges System</b>	<b>Governors and Legislative Pension Plan</b>
Receivables:						
Member Contributions .....	\$ —	\$ 441	\$ 235	\$ 300	\$ —	\$ —
Employer Contributions .....	25,543	595	2,802	—	37	—
Court Fees and Fire Insurance Premium .....	—	—	—	—	142	—
Investments .....	599,481	43,986	74,936	29,645	4,893	489
Total Receivables .....	<u>\$ 625,024</u>	<u>\$ 45,022</u>	<u>\$ 77,973</u>	<u>\$ 29,945</u>	<u>\$ 5,072</u>	<u>\$ 489</u>
Investments:						
Debt Securities .....	\$ 3,422,029	\$ 251,090	\$ 427,758	\$ 169,229	\$ 27,928	\$ 2,793
Equity Investments .....	8,004,825	587,350	1,000,614	395,859	65,330	6,535
Private Equity .....	486,622	35,706	60,828	24,065	3,971	397
Real Estate .....	1,872,423	137,389	234,056	92,596	15,281	1,528
Mortgage Loans .....	5,462	401	682	270	45	4
Invested Securities						
Lending Collateral .....	1,894,493	139,007	236,815	93,688	15,462	1,547
Investment Contracts .....	—	—	—	—	—	—
Total Investments .....	<u>\$ 15,685,854</u>	<u>\$ 1,150,943</u>	<u>\$ 1,960,753</u>	<u>\$ 775,707</u>	<u>\$ 128,017</u>	<u>\$ 12,804</u>

Continues Below

	<b>401(k) Plan</b>	<b>457 Plan</b>	<b>Roth IRA Plan</b>	<b>Traditional IRA Plan</b>	<b>Total December 31 2005</b>
Receivables:					
Member Contributions .....	\$ —	\$ —	\$ —	\$ —	\$ 976
Employer Contributions .....	—	—	—	—	28,977
Court Fees and Fire Insurance Premium .....	—	—	—	—	142
Investments .....	43,603	2,404	—	—	799,437
Total Receivables .....	<u>\$ 43,603</u>	<u>\$ 2,404</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 829,532</u>
Investments:					
Debt Securities .....	\$ 694,087	\$ 73,049	\$ 289	\$ 2,016	\$ 5,070,268
Equity Investments .....	1,333,317	137,562	736	4,531	11,536,659
Private Equity .....	—	—	—	—	611,589
Real Estate .....	—	—	—	—	2,353,273
Mortgage Loans .....	—	—	—	—	6,864
Invested Securities					
Lending Collateral .....	68,422	5,553	25	119	2,455,131
Investment Contracts .....	31,364	15,855	—	—	47,219
Total Investments .....	<u>\$ 2,127,190</u>	<u>\$ 232,019</u>	<u>\$ 1,050</u>	<u>\$ 6,666</u>	<u>\$ 22,081,003</u>

**Actuarial Methods and Assumptions**

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2005 and calendar year 2005 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's

excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

**Schedules of Funding Progress  
By Valuation Date  
(Expressed in Thousands)**

	<b>Contributory System</b>	<b>Noncontributory System</b>	<b>Public Safety System</b>	<b>Firefighters System</b>	<b>Judges System</b>	<b>Governors and Legislative Pension Plan</b>
<b>Actuarial Value of Assets:</b>						
January 1, 2004.....	\$ 913,949	\$ 11,657,525	\$ 1,448,888	\$ 589,502	\$ 97,412	\$ 10,905
January 1, 2005.....	\$ 933,974	\$ 12,212,437	\$ 1,524,904	\$ 610,688	\$ 100,814	\$ 10,650
December 31, 2005.....	\$ 955,390	\$ 13,065,512	\$ 1,633,022	\$ 644,496	\$ 106,374	\$ 10,587
<b>Actuarial Accrued Liability (AAL):</b>						
January 1, 2004.....	\$ 982,569	\$ 12,351,310	\$ 1,556,758	\$ 549,378	\$ 97,902	\$ 8,812
January 1, 2005.....	\$ 1,013,836	\$ 13,235,444	\$ 1,726,785	\$ 578,891	\$ 104,210	\$ 8,727
December 31, 2005.....	\$ 1,047,544	\$ 14,165,548	\$ 1,851,635	\$ 617,088	\$ 110,667	\$ 8,662
<b>Unfunded Actuarial Accrued Liability (UAAL):</b>						
January 1, 2004.....	\$ 68,620	\$ 693,785	\$ 107,870	\$ (40,124)	\$ 490	\$ (2,093)
January 1, 2005.....	\$ 79,862	\$ 1,023,007	\$ 201,881	\$ (31,797)	\$ 3,396	\$ (1,923)
December 31, 2005.....	\$ 92,154	\$ 1,101,036	\$ 218,613	\$ (27,408)	\$ 4,293	\$ (1,925)
<b>Funding Ratios:</b>						
January 1, 2004.....	93.0%	94.4%	93.1%	107.3%	99.5%	123.8%
January 1, 2005.....	92.1%	92.3%	88.3%	105.5%	96.7%	122.0%
December 31, 2005.....	91.2%	92.2%	88.2%	104.5%	96.1%	122.2%
<b>Annual Covered Payroll:</b>						
January 1, 2004.....	\$ 139,470	\$ 2,959,347	\$ 278,402	\$ 75,619	\$ 10,888	\$ 556
January 1, 2005.....	\$ 139,362	\$ 3,084,317	\$ 293,797	\$ 79,638	\$ 11,646	\$ 556
December 31, 2005.....	\$ 137,730	\$ 3,165,504	\$ 298,756	\$ 84,061	\$ 11,594	\$ 887
<b>UAAL as a Percent of Covered Payroll:</b>						
January 1, 2004.....	49.2%	23.4%	38.7%	(53.1)%	4.5%	(376.4)%
January 1, 2005.....	57.3%	33.2%	68.7%	(39.9)%	29.2%	(345.9)%
December 31, 2005.....	66.9%	34.8%	73.2%	(32.6)%	37.0%	(217.0)%

## B. Teachers Insurance and Annuity Association-College Retirement Equities Fund

Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), privately administered defined-contribution retirement plans, provides individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and staff. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The total contribution made by the college and university (component units) to the TIAA-CREF retirement system for June 30, 2006 and 2005, were \$105.08 million and \$98.347 million, respectively.

## NOTE 17. POSTEMPLOYMENT BENEFITS

At the option of the individual state agencies, employees may be offered participation in a post retirement benefits program, as set forth in Section 67-19-14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. The 2005 Legislature passed House Bill 213, *Unused Sick Leave at Retirement Amendments* that became effective January 1, 2006. Beginning January 1, 2006, upon retirement, the employee receives 25 percent of the value of unused accumulated sick leave as a mandatory employer contribution into a 401(k) account. Employees retiring prior to January 1, 2006, were paid up to 25 percent of the value of unused accumulated sick leave.

In addition, the employee may receive health and life insurance coverage for up to five years or until age 65, whichever comes first. However, as of January 1, 2006, this part of the program will phase out over the next five years. If the employee has not reached age 65 or the employee retires after the phase out period, then that employee may exchange one day of unused accumulated sick leave earned prior to January 1, 2006, for one month of paid health and life insurance coverage. After age 65, the employee may use any remaining unused accumulated sick leave, earned prior to January 1, 2006, to exchange for spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. The value of any unused accumulated sick leave earned on or after January 1, 2006, will be converted to a health reimbursement account for the retiree at retirement. As of June 30, 2006, there were 2,842 individuals on the program. For retirees that participate in the health program, insurance premiums are paid 100 percent by the State for individuals that retired before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The Governmental Accounting Standards Board (GASB) issued Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Additionally GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statements 43 and 45, which will be implemented by the State for the fiscal year beginning July 1, 2006, will require that the long-term cost of retirement health care and other obligations for postemployment benefits be determined on an actuarial basis and

reported similar to pension plans. An actuarial study was completed to determine the actuarial accrued liability as of December 31, 2004. The study determined the liability if funded at transition of \$487.798 million, or \$749.238 million if not funded at transition. GASB Statement 45 does not mandate the pre-funding of postemployment benefit liabilities. However, any pre-funding of these benefits will help minimize or eliminate the postemployment benefit obligation that will be required to be reported on the financial statements. The Legislature took steps through the appropriations process to fund the actuarial required contribution (ARC) of \$46.814 million for the fiscal year ending June 30, 2007. In addition, the Legislature is expected to consider the creation of a trust fund in the next General Session. The State will request another actuarial study prior to implementing these standards for fiscal year 2007.

The estimated 25 percent sick leave payouts at retirement and the estimated unused sick leave that will be converted to health reimbursement accounts are included in the liability for compensated absences. Charges to agency budgets are made on an ongoing basis to fund the current payments for postemployment benefits and compensated absences. For the year ended June 30, 2006, \$20.492 million in postemployment benefit expenditures were recognized.

A liability is also reported in the Pension Trust Funds of \$6.162 million, including \$2.401 million for compensated absences, which will be liquidated by assets of Utah Retirement Systems.

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49-21-201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2006, there are 331 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the year ended June 30, 2006, the State paid \$5.618 million in premiums and the program has \$25.982 million in assets.

## NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property, auto/physical damage, and liability risk of the State. The Public Employees Health Program manages the health insurance programs of the State. The University of Utah, Utah State University, Southern Utah University, and Salt Lake Community College (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains a self-insurance fund to manage medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess

insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, auto/physical damage, group medical and dental, and some environmental claims. They also service the general risk claims for all local school districts and many charter schools within the State. All funds, agencies, schools, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The reserve for liability losses is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this

calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 5 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of \$262.026 million and \$12.658 million, respectively, for health and life insurance coverage in fiscal year 2006. In addition, the State Department of Health paid \$30.738 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah, Utah State University, Southern Utah University, and Salt Lake Community College report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University of Utah Hospital and Clinics have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2005, and June 30, 2006:

**Changes in Claims Liabilities**  
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2005 .....	\$ 40,423	\$ 11,250	\$ (7,000)	\$ 44,673
2006 .....	\$ 44,673	\$ 12,758	\$ (10,706)	\$ 46,725
Public Employees Health Program:				
2005 .....	\$ 99,314	\$ 463,990	\$(455,908)	\$ 107,396
2006 .....	\$ 107,396	\$ 515,022	\$(498,983)	\$ 123,435
College and University Self-Insurance:				
2005 .....	\$ 44,899	\$ 154,507	\$(143,993)	\$ 55,413
2006 .....	\$ 55,413	\$ 171,412	\$(168,650)	\$ 58,175

**NOTE 19. SUBSEQUENT EVENTS**

On October 26, 2006 the University of Utah (major component unit) issued \$77.145 million Hospital Revenue and Refunding Bonds Series 2006A and \$20.240 million Variable Rate Hospital Revenue Bonds Series 2006B.

In August 2006 Salt Lake Community College (nonmajor component unit) received and accepted an offer to purchase a building in downtown Salt Lake City for \$5.2 million with settlement on October 20, 2006. As part of the closing, notes payable to RDA and Zions Bank totaling \$4.508 million were liquidated. The terms of the sale permit continued occupancy

through December 31, 2006 allowing classes to continue through fall semester.

Subsequent to June 30, 2006 the Utah Housing Corporation (major component unit) issued \$13.905 million Single-Family Mortgage Purchase Variable Rate Bonds, 2006 Series D, maturing on January 1, 2038, interest at a variable rate adjusted weekly, and issued \$21.095 million Single-Family Mortgage Purchase Fixed Rate Bonds, 2006 Series D, maturing July 1, 2008 through 2016, on January 1, 2028 and 2032, and on July 1, 2034, interest rate of 4 percent and 6.41 percent.